

OFFICE OF RISK MANAGEMENT



COMPLIANCE AUDIT
ISSUED JULY 26, 2006

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July 26, 2006

J. S. "BUD" THOMPSON, JR.
STATE RISK DIRECTOR
OFFICE OF RISK MANAGEMENT
Baton Rouge, Louisiana

We have audited certain transactions of the Office of Risk Management (ORM) in accordance with Title 24 of the Louisiana Revised Statutes. Our audit was performed to substantiate or refute allegations of improprieties at ORM.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on ORM's financial statements or system of internal control nor assurances as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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Between December 11, 2002, and August 25, 2005, Chennel Lite Clark, an Office of Risk Management (ORM) claims examiner, improperly processed 50 accident reimbursement claims totaling \$110,766. Forty of these checks totaling \$79,613 were deposited into Ms. Clark's personal bank account. Ms. Clark appears to have destroyed supporting documentation for these claims; manipulated the claims processing system so that claimant checks were sent to her personal address and post office boxes; improperly endorsed these claimant checks to herself; and deposited these checks into her personal banking account. ORM's management review system failed to identify these fraudulent claims and payments.

Background

The Claims Unit within ORM receives loss notices, reviews claims, and ultimately pays those claims that are valid. The Claims Unit handles various types of claims, including comprehensive general liability, road hazards, property, medical malpractice, transportation, and workers' compensation. Each quarter, a loss listing report is sent to all state agencies that have reported claims. The loss listing report summarizes information on the claim and its status.

On September 20, 2005, an ORM employee noted that a claimant on the Grambling State University loss listing report did not appear to have received payment. Upon examining the cancelled ORM check to the claimant, the employee noted a second endorsement on the check. The second endorsement was "Chennel Lite," the ORM examiner for the claim.

Ms. Clark was hired as an Insurance Claims Examiner for ORM on April 1, 2002. On March 17, 2003, she was promoted to Risk Adjustor I and on August 11, 2005, she was promoted to Risk Adjustor III. She was responsible for general liability, road hazard, and worker compensation claims. Her job duties included reviewing loss notices, verifying claim data, processing claims, and authorizing claim payments. Ms. Clark was suspended on September 26, 2005, pending a review of certain transactions.

A review of claims processed by Ms. Clark revealed that 50 claim checks had similar second endorsements. Forty of the 50 claim checks had "Chennel Lite" as the second endorsement and 10 had "Alfred Clark" as the second endorsement. Mr. Alfred Clark is Ms. Clark's husband.

ORM's internal policies allow adjustors to authorize claims payments without supervisory approval up to \$5,000. All claim payments over \$5,000 and under \$100,000 must be authorized by the Administrative Manager. The Administrative Manager reviews the back-up documentation supporting the payment notice and ensures the appropriate signatures are in place. All of the 50 claim checks improperly processed by Ms. Clark were under the \$5,000 threshold.

According to ORM policies, management did not comprehensively review or sign as having reviewed the 50 claims processed by Ms. Clark before payment. Although management did randomly review some claim files under the \$5,000 threshold, the review was insufficient to detect the false claims authorized by Ms. Clark. Moreover, management failed to request any additional reports to compensate for the limited review on these claims, e.g., exception reports that may have detected unusual patterns in processing these claims. Because of the lack of

adequate monitoring by management, Ms. Clark was able to direct fraudulent claim payments to herself.

On April 2, 2001, the Legislative Auditor issued a public audit report on ORM concerning the theft of at least \$1,036,972 by Small Claims Examiner Carry Emerson. Ms. Emerson accomplished the theft by creating and paying fraudulent small claims to family members, friends, and other individuals. The lack of adequate management oversight of the small claims examiner and the negligence of management to ensure policies and procedures were followed caused Ms. Emerson's theft to go undetected.

Claims Processing System

ORM operates an electronic claims system called STARS. The system includes an abstract that details the general claim information, a diary that notes significant events in the history of the claim, and an electronic rolodex where the claimant address is entered. This system has been in place since July 1, 2004. The claims processing system used before STARS did not include the claimant addresses.

Claims processing begins with the receipt of a loss notice. The claimant has one year to supply documentation of reimbursable losses. If this documentation is not received within one year, the claim is proscribed and no claim payment is made. Once the appropriate documentation is received, the adjuster requests payment to the claimant.

The adjuster initiates payment by completing a payment notice or blue sheet. This sheet is given to the payment clerk. The clerk has authority to release claim payments up to \$5,000. The clerk inputs the information from the blue sheet into an invoice screen. The claimant address information is pulled into the invoice from the electronic rolodex. The clerk cannot alter the address information. STARS generates the claim check, which is then delivered to the accounting department. The check is sent to the address printed on the check.

In some instances, the check goes through "special handling," i.e., it is sent to a different address from that of the claimant; for example, when the claim is delivered to an attorney representing the claimant. On these claims, the new address is noted on the blue sheet. An envelope with this address is then prepared and the envelope with the enclosed check is delivered. The only record of where these checks are delivered is the blue sheets.

Missing Records

Department policy requires that hard copy files be kept on all claims. The files include all information received on the claim including the claim abstracts, examiner activity sheets, correspondences, independent adjuster reports, repair invoices, and blue sheets. After the claims are settled, the hard copy files are electronically scanned. The practice of electronically scanning the files began on July 1, 2004.

Hard copy files are missing on all but three of the 50 claims in question. As a result, it is not possible to determine precisely what documentation was received on the bulk of the claims or whether these claimants were eligible for payment. Moreover, the absence of blue sheets makes it impossible to show that the examiner actually requested payment on these claims.

A review of the three hard copy files that were found shows no evidence of documented expenses for these claimants. Moreover, on two of these three claims, independent adjusters were asked to assist with the settlement. Correspondence between these independent adjusters and Ms. Lite suggest that she was aware no payments were due on these claims. Finally, the adjuster activity reports, which record significant events in the processing of the claims, show no evidence of receipt of expense documentation or payments made to these three claimants as they do for other claimants that were paid.

The hard copy file for one of the three claimants contained a blue sheet and other documentation, including copies of a driver's license, vehicle registration, personal insurance, incident report, and release form. When we spoke with this claimant, he informed us that he had never filed a claim with ORM; the signature on the release was not his; the address on the check was not his; and the endorsement on the claim check was not his. Ms. Clark's initials are on the blue sheet indicating that she requested payment on this claim.

Claim Checks Sent to Addresses Linked to Chennel Lite Clark

Forty-four of the 50 claim checks under review were mailed to addresses linked to Ms. Clark. Specifically, 28 of the claim checks were mailed to four post office boxes in the name of Chennel Lite. Each of these four post office boxes was established within a week of the first claim check addressed to the post office box.

Four claim checks were mailed to two post office boxes in the name of Alfred Clark. Twelve of the claim checks were mailed to the residential addresses of Chennel Lite, Margueritte Lite, or Alfred Clark. Of the remaining six claim checks, four appear to have been special handled with no means to trace where these checks were delivered. The remaining two checks went to residences in which we were unable to contact the owners.

Claimant Address Information Was Altered

It appears that claimant address information was altered in the rolodex to send checks to post office boxes and residences connected to Ms. Clark. An audit trail detailed report on the 50 suspicious claims processed by Ms. Clark shows three claims where the claimant address information in the rolodex was altered to one of the post office boxes mentioned above. These alterations occurred shortly before payment. The audit trail detailed report indicates that these alterations were made under Ms. Clark's log-in ID.

Because of problems with the STARS system, the audit trail function was not operated continually by the department during this period. Therefore, the audit trail is not sufficient to determine whether claimant address information was altered on the remaining claims.

Claim Checks Deposited Into Chennel Lite Clark’s Bank Account

All 40 of the claim checks with second endorsements “Chennel Lite” were deposited into Ms. Clark’s personal checking account. We were not able to determine the final disposition of the 10 checks endorsed by Alfred Clark. The 40 claimant checks deposited into Ms. Clark’s bank account total \$79,613.52. The check information is listed below.

Check Date	Check Amount	Second Endorsement
August 13, 2005	\$2,005.08	Chennel Lite
August 9, 2005	668.55	Chennel Lite
July 30, 2005	1,044.05	Chennel Lite
July 20, 2005	1,500.00	Chennel Lite
June 23, 2005	2,018.09	Chennel Lite
June 14, 2005	1,332.23	Chennel Lite
June 2, 2005	1,374.56	Chennel Lite
May 15, 2005	1,119.00	Chennel Lite
April 16, 2005	1,090.81	Chennel Lite
March 30, 2005	1,036.84	Chennel Lite
March 24, 2005	1,023.44	Chennel Lite
February 24, 2005	1,070.61	Chennel Lite
February 4, 2005	1,465.37	Chennel Lite
January 12, 2005	1,868.92	Chennel Lite
December 17, 2004	1,365.30	Chennel Lite
December 3, 2004	2,365.39	Chennel Lite
November 16, 2004	1,226.14	Chennel Lite
October 29, 2004	2,175.36	Chennel Lite
September 22, 2004	2,597.82	Chennel Lite
August 25, 2004	2,118.83	Chennel Lite
August 16, 2004	1,865.40	Chennel Lite
July 17, 2004	2,006.09	Chennel Lite
June 17, 2004	1,203.55	Chennel Lite
May 6, 2004	2,516.03	Chennel Lite
April 23, 2004	1,580.28	Chennel Lite
March 23, 2004	3,491.47	Chennel Lite
February 19, 2004	4,283.00	Chennel Lite
December 4, 2003	2,500.00	Chennel Lite
November 10, 2003	4,500.00	Chennel Lite
October 3, 2003	4,417.43	Chennel Lite
September 11, 2003	1,000.00	Chennel Lite
August 14, 2003	2,461.27	Chennel Lite
July 9, 2003	1,815.19	Chennel Lite
June 26, 2003	799.00	Chennel Lite
May 22, 2003	3,834.44	Chennel Lite
April 30, 2003	1,298.61	Chennel Lite
March 31, 2003	1,590.43	Chennel Lite
February 28, 2003	3,541.26	Chennel Lite
January 21, 2003	2,500.22	Chennel Lite
December 11, 2002	1,943.46	Chennel Lite
Total	\$79,613.52	

We attempted to speak with both Chennel Lite Clark and Alfred Clark about these claimant checks. We were able to contact Ms. Clark, but she would not meet with us. We have been unable to contact Mr. Clark.

This report has been provided to the District Attorney for the Nineteenth Judicial District. The actual determination as to whether an individual is subject to formal charge is at the discretion of the district attorney.¹

We recommend the Office of Risk Management:

- (1) implement controls that prevent claimant address information in the electronic rolodex from being altered subsequent to its input into the STARS system. All changes to this information should be authorized by management and documented;
- (2) require all claim payments to be reviewed, approved, and signed by management;
- (3) ensure all claim documentation is being maintained in accordance with department policy;
- (4) ensure the audit trail function of the STARS system operates continually. Breaks in the audit trail complicate efforts to reconstruct the actual record of claim transactions; and
- (5) take appropriate legal action to include seeking restitution from Ms. Clark and others, as appropriate.

¹ **R.S. 14:67** provides, in part, that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

R.S. 14:72 provides, in part, that forgery is the false making or altering, with intent to defraud, of any signature to, or any part of, any writing purporting to have legal efficacy.

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The Office of Risk Management (ORM) was created within the Division of Administration pursuant to Louisiana Revised Statute 39:1527. The mission of the office is to provide a comprehensive risk management program for the state. The Claims Unit within ORM handles claims involving the state's legal liability for injuries or property damage as well as certain obligations of others assumed under contract.

Our office received information of possible false claims processed by an adjustor in the Claims Unit. The procedures performed during this compliance audit consisted of:

- (1) interviewing ORM employees and others, as appropriate;
- (2) examining selected ORM records;
- (3) performing analytical tests; and
- (4) reviewing applicable state and federal laws and regulations.

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Management's Response



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

July 7, 2006

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Fraud Finding – Chennel Lite Clark

Dear Mr. Theriot:

This office appreciates the opportunity to provide a response to your findings and recommendations regarding the fraud loss experienced between December 11, 2002 and August 25, 2005, as a result of Chennel Lite Clark's improperly processing accident reimbursement claims. The report submitted accurately recounts the facts surrounding the fraud loss.

The contact for this finding is Ann Wax.

Recommendations and Corrective Action

Recommendation: ORM should implement controls that prevent claimant address information in the electronic rolodex from being altered subsequent to its input into the STARS system. All changes to this information should be authorized by management and documented.

Corrective Action: ORM adjusters can no longer make address changes in the rolodex after a claim has been entered. Security changes have been implemented in the STARS system to limit these changes to Claims Supervisors and Managers. A monthly STARS report listing changes to claimant addresses is reconciled to the changes each supervisor made.

Recommendation: ORM should require all claim payments to be reviewed, approved and signed by management.

Corrective Action: Due to the volume of claims payments processed, all claim payments cannot be reviewed, approved and signed by management. However, management routinely reviews a random sample of all claims as part of the file review process which includes claim payments. Furthermore, all claim payments that exceed an adjuster's delegated authority are reviewed by management. In addition, management now approves all non-litigated GL settlement payments.

Mr. Steve J. Theriot
July 7, 2006
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Recommendation: ORM should ensure that all claim documentation is being maintained in accordance with department policy.

Corrective Action: Claims supervisors are required to review claims files as part of their normal job function to ensure that documentation meets departmental standards.

Recommendation: ORM should ensure that the audit trail function of the STARS system operates continually. Breaks in the audit trail complicate efforts to reconstruct the actual record of claim transactions.

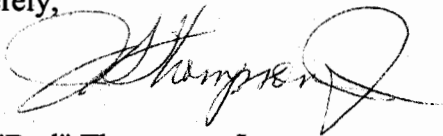
Corrective Action: The audit trail function of the STARS system is operating fully and continuously. Reports are generated regularly that are reviewed by ORM management and Agency personnel. These reports provide insight into losses and disclose trends and patterns.

Recommendation: ORM should take appropriate legal action to include seeking restitution from Ms. Clark and others as appropriate.

Corrective Action: ORM notified DOA Human Resources, Baton Rouge Police Department and the Legislative Auditor of the suspected fraudulent activity. ORM has cooperated fully with the Baton Rouge Police Department providing documentation to be used in prosecuting the case against Ms. Clark. The East Baton Rouge Parish District Attorney's Office is prosecuting the criminal case. Documentation is also being sent to the DOA Legal Staff to support the civil lawsuit that will be filed to seek restitution from Ms. Clark et al.

Please advise if further information is needed.

Sincerely,



J. S. "Bud" Thompson, Jr.
State Risk Director

cc: Barbara Goodson, Assistant Commissioner