

OFFICE OF THE CITY AUDITOR
PERFORMANCE AUDIT
April 2020

**Law Department
Database Improvements
Can Assist Risk
Management Program**



CITY OF
KANSAS CITY,
MISSOURI

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CITY OF FOUNTAINS
HEART OF THE NATION



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April 13, 2020

Honorable Mayor and Members of the City Council:

This audit focuses on whether the Law Department's legal claims and lawsuit data could be improved to support the city's new, more robust risk management program in analyzing data to identify, evaluate, and mitigate risk. In December, the City Council directed that the revised risk management program report annually on the frequency of claims, trends in frequency and severity, and any departments, divisions, or conditions that are contributing unduly to losses to the city.

The Law Department's existing claims and lawsuit databases were developed to meet the department's case management needs; they were not designed to capture all data needed for risk analysis nor to perform that analysis efficiently. For example, we identified data fields made up of multiple pieces of information from multiple data types, which makes it difficult to summarize and categorize data needed for analysis.

The current databases also lack controls necessary to prevent data reliability problems we identified. Information developed from unreliable data may result in decisions that do not address underlying problems and could undermine the success of the risk management program.

We recommend that the city attorney collaborate with the risk manager and the Information Technology Division to develop a new, single database built for the purpose of both case management and risk management data analysis and reporting.

The draft report was sent to the city attorney on March 17, 2020 for review and comment. Her response is appended. We would like to thank the Law Department and the IT Division for their assistance and cooperation during this audit. The audit team for this project was Joyce Patton, Jonathan Lecuyer, and Sue Polys.


Douglas Jones
City Auditor

Law Department Database Improvements Can Assist Risk Management Program

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Introduction

Objectives

We conducted this audit of legal claim, settlement, and judgment data under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides "findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability."¹

This report is designed to answer the following question:

- Could the Law Department improve its legal claim, settlement, and judgment data to support the risk management program's goal to identify, evaluate, and mitigate risk?

Scope and Methodology

Our review focuses on whether the Law Department could improve its legal claim, settlement, and judgment data to support the risk management program's goal to identify, evaluate, and mitigate risk. We limited the scope of this audit to legal claim, settlement, and judgment data and did not include data from the Worker's Compensation and Collection Units in our report. Our audit methods included:

- Interviewing Law Department staff to understand the nature of legal claim, settlement, and judgment data.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

- Reviewing city code to understand the risk management program's required analysis and reporting of legal claims, settlements, and judgments and trends in their frequency and severity.
- Reviewing Government Finance Officer Association recommended practices for risk management programs.
- Reviewing professional literature to identify recommended practices for reliable data and database design.
- Testing legal claim, settlement, and judgment data for completeness, accuracy, and reliability.
- Interviewing information technology staff to determine their database development capabilities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. No information was omitted from this report because it was deemed privileged or confidential.

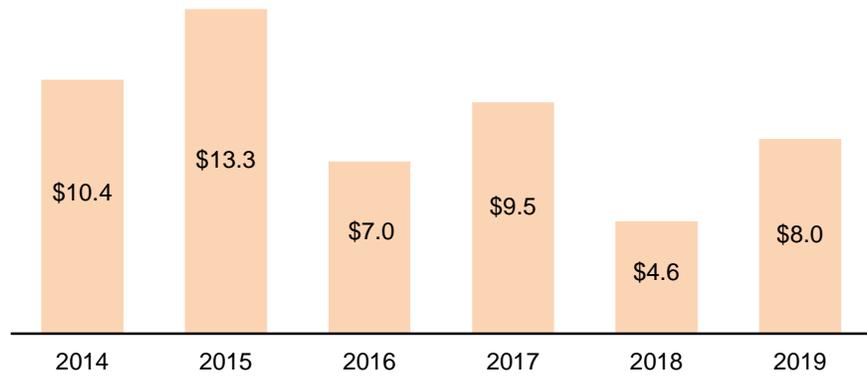
In our audit work we identified data reliability issues in Law's lawsuit and claims databases that should be addressed before the data is useful for analysis. While this report discusses data reliability issues in general, we communicated specific details about these issues to the Law Department in a separate memorandum.

Background

Actions Against the City Resulting in Legal Payouts

Legal actions against the city begin when a claim or lawsuit is filed against the city. From 2014 to 2019, the city paid over \$52.7 million to resolve claims and lawsuits against the city. (See Exhibit 1.) The total number of claims and lawsuits per year during that period ranged from 618 to 751.

Exhibit 1. Total City Legal Payouts in Millions, Fiscal Year 2014 - 2019

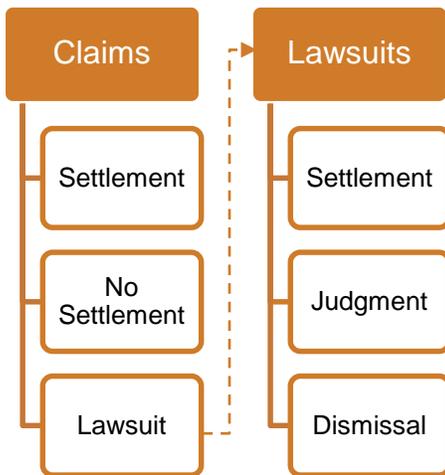


Source: PeopleSoft Financials.

Claims. The Law Department’s Claims Unit handles claims against the city for personal injury and property damage. Claims are filed against the city via an online form, 311, mail, or by calling the Claims Unit.

Examples of claims include, but are not limited to: damage to cars from potholes, accidents involving a city vehicle, sewer backups in houses and buildings, damage by city contractors to private property, and injuries suffered by falling on a city sidewalk.

Exhibit 2. Legal Action and Results



Staff investigates the claims, determines whether the city is liable under applicable law, and negotiates claims. (See Exhibit 2.) Some claims become lawsuits.

Lawsuits. The Law Department represents the city, its officials, and its employees in lawsuits in which the city is a party. The types of lawsuits handled by the city’s litigators include employment, contract disputes, personal injury, property damage, and civil rights.

Lawsuits are typically resolved through either a pre-trial settlement or a judgment from a trial. A settlement can occur before a suit is filed. If a suit is filed, the city may settle before or at any point during a trial. Settlements can either resolve the issue or only part of the issue. All judgments are entered by a judge; whether after a jury verdict or upon the judge’s ruling on a motion to dismiss or motion for summary judgment. (See Exhibit 2.) If the judgment is against the city, the city may end up paying the plaintiff a judgment amount.

Risk Management Program

In December of 2019, the City Council directed that a more robust risk management program be developed to effectively identify and evaluate risk to the city and develop efficient means to manage and mitigate the effects of those risks.² While the city manager is responsible for managing the program, the risk manager will be required to develop annual reports. The risk manager's duties include annually reporting the frequency of claims, trends in frequency and severity, and any departments, divisions, or conditions that are contributing unduly to losses to the city.

The Government Finance Officers Association (GFOA) recommends governments develop a comprehensive risk management program that identifies, reduces, or minimizes risk to its property, interests, employees, and others. GFOA believes that an effective risk management program should include the following steps:

- Risk Identification
- Risk Evaluation
- Risk Treatment
- Risk Management Implementation
- Risk Management Program Review³

The reporting requirements of the city's risk management program address the GFOA recommended practice of Risk Identification and Evaluation.

² Ordinance 190971, December 12, 2019.

³ *Creating a Comprehensive Risk Management Program*, Government Finance Officers Association, March 2009, <https://www.gfoa.org/creating-comprehensive-risk-management-program>.

Findings and Recommendations

Changes to Law Department Databases Can Help Risk Management Program

The Law Department developed specifications for databases to meet their claims and lawsuits case management needs. The city's risk manager will need to analyze this claim and lawsuit data to effectively identify and address city risks. The risk manager faces data barriers because of the existing databases' design and lack of controls. These barriers can be addressed with the development of a new, single database to meet the needs of both the Law Department and the risk management program.

Databases Do Not Support Risk Management Reporting

The risk manager will not be able to develop the necessary report and trend analysis from the Law Department's current databases. The risk manager is required to annually report the number of claims, costs incurred, reserves, trends in frequency and severity, and identify departments, divisions, offices, or conditions which appear to be contributing unduly to losses.⁴ These reports require data to be in a format conducive to analysis.

The Law Department's databases are not set up for risk management data analysis. Law tracks data across multiple databases that do not capture all the same information about the cases. Existing database fields include multiple pieces of information, contain multiple types of information (date, text, numeric) in a single data field, have naming conventions that do not help analysis, or do not contain all relevant information needed for a risk management report. Each of these conditions requires additional steps such as mitigating duplicate records and isolating data by field type before analysis can be done.

Data Not Reliable for Risk Management Reporting

The risk management program may not be able to create reliable reports from current Law Department data. The Law Department's existing databases contain incomplete fields, illogical date sequences, duplicate records, gaps in record numbers, use inconsistent codes to categorize data, and records that are not

⁴ Ordinance 190971, December 12, 2019.

entered timely. As a result, the risk manager will not be able to develop accurate and complete reports from this data.

Risk Management Program Efficiency and Effectiveness at Stake

Without changes to the existing Law Department claims and lawsuit database setup, the city's risk management program may not be efficient or effective. Extracting data for analysis from the databases as they currently exist will require cumbersome and time consuming manual processes. If the condition of the data requires the risk manager to prepare and clean the data to ensure its quality before performing trend analysis, it will make staff less efficient and the additional steps create opportunities for mistakes. Additionally, the risk manager may have to gather additional data from case files in order to perform risk analysis because existing databases do not capture all needed information. Although the risk manager may choose to create a database separate from the Law Department's existing databases to overcome these issues, doing so will be duplicating Law's efforts, and waste time and resources.

Bad data leads to bad decisions. The risk manager could provide inaccurate or misleading information to the city manager with existing data. Inaccurate or misleading data may not identify underlying risks that result in financial loss to the city. Without this information, management cannot make decisions to mitigate risks or address correctable problems.

Most importantly, without a database suited to the needs of the risk management program, the program may not be able to deliver the reduction in legal claims or deliver the intended costs savings to the city.

Database Should Be Designed to Support Risk Management

There are two main causes contributing to the barriers the risk manager will face in developing reports and conducting analysis needed to meet the city's requirements of a risk management program. The first is that existing Law Department databases are legacy systems, one database is over 30 years old, developed for a different purpose than risk management data analysis. The Law Department developed their databases for internal case assignment and tracking purposes, not for risk management data analysis.

The second cause of data barriers for the risk manager comes from a lack of internal controls for the databases such as data entry

controls, databases manuals and procedures, and quality assurance of data.

Data entry controls: Databases should utilize a variety of data entry controls such as those shown in Exhibit 3. Some of the controls would ensure consistency and help reduce errors that are the result of staff manually typing information into the database. Without data entry controls in a new database, the risk manager could continue to see data reliability issues in the Law Department's data.

Exhibit 3. Potential Controls for Data Entry

o Drop-down menus	o Prevent override of internal database calculations
o Logic checks on dates	o Audit trail of database changes
o Toggle options	o Date selection options
o Check boxes	o Prompts or error messages
o Radio button lists	o Varying security access levels entered
o Data trees based on information entered	

Sources: CAO staff.

Manuals and procedures: Databases should have manuals and procedures for data entry. A database manual should include data dictionaries where fields are defined. Data dictionaries help both data users and data input staff understand what information is expected in a field. Further written procedures help data entry staff clearly understand when to update fields and where to get relevant information to be entered.

Quality assurance: Staff stated no formal quality assurance process exists for databases. A quality assurance process includes tracing records back to source material to ensure that complete data is accurately entered. A quality assurance process ensures controls are working as intended and procedures are followed as written. Identification of errors can help management make adjustments to controls and procedures over time. Without this process, errors will compound over time.

Recommendation

To ensure the risk manager can efficiently perform frequency and trend analysis on the Law Department's claim and lawsuit data, the city attorney should collaborate with the Information Technology Division and risk manager to develop:

- a new, single database built for the purpose of both case tracking and risk management data analysis and reporting, and
- written definitions for data fields, policies and procedures for database use, controls designed to limit manual entry, and a quality assurance process for data entry.

Recommendation

1. The city attorney should collaborate with the Information Technology Division and risk manager to develop:
 - a. a new, single database built for both case tracking and risk management data analysis and reporting.
 - b. written definitions for data fields, policies and procedures for database use, controls designed to limit manual entry, and a quality assurance process for data entry.

Appendix A

City Attorney's Response



OFFICE OF THE CITY ATTORNEY

RECEIVED

APR 07 2020

CITY AUDITOR'S OFFICE

TO: Douglas Jones, City Auditor

FROM: Cecilla Abbott, City Attorney

SUBJECT: Response to Performance Audit: *Law Department Database Improvements Can Assist Risk Management Program*

DATE: April 7, 2020

The City Attorney's responses to the "Law Department Database Improvements Can Assist Risk Management Program" performance audit are as follows:

1. The City Attorney should collaborate with the Information Technology Division and Risk Manager to develop:

- a. a new, single database built for both case tracking and risk management data analysis and reporting.**

RESPONSE: Agree. The Law Department will contact peer cities to inquire as to the databases used by those cities. Law Department will issue a Request For Information to various vendors and then analyze available technology options. Law will then estimate the costs for a new database and add it to our budget request for FY21-22. Law will collaborate with the Information Technology Division, the Risk Manager, and the Risk Management Committee throughout this process. In addition to creating a system beneficial to the Risk Manager, Law will analyze technologies that increase efficiencies and quality controls for our Claims Unit.

- b. written definitions for data fields, policies and procedures for database use, controls designed to limit manual entry, and a quality assurance process for data entry.**

RESPONSE: Agree. These items will be included as desired items in the Request for Information along with other best practices from peer cities.

Cecilla Abbott
City Attorney

cc: Earnest Rouse, Acting City Manager
Matthew Giglotti, Deputy City Attorney