



Risk Management Workers Compensation Audit - #792

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Risk Management Division, Workers Compensation area. This area is responsible for administering workers compensation claims for the City, JEA, JAA, JPA and JHA. The administration is assisted by a third party medical claims administrator.

What CAO Recommends

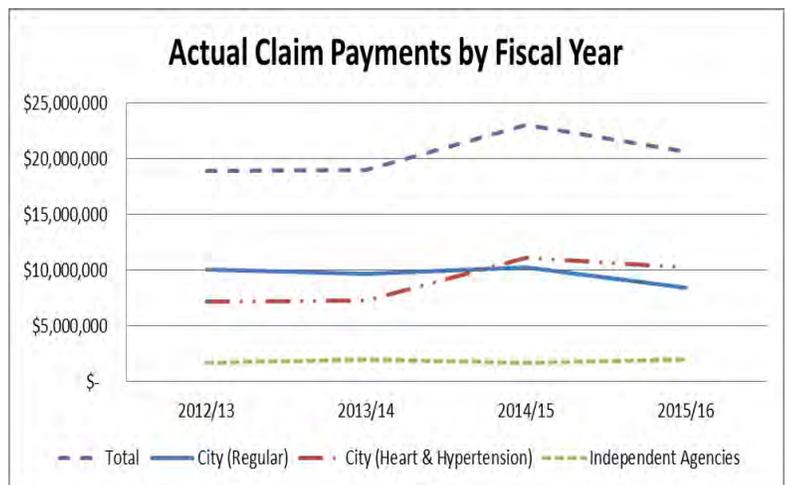
Our recommendations noted in the report include:

- Risk Management should review access rights for all users related to workers compensation, and ensure users are only granted access rights needed to perform their work duties. This review should be done at least once per year.
- When an incident occurs, Workers Compensation should ensure that they are receiving complete information from the injured worker and their employer.
- Risk Management should make sure they are following the City procurement code when making purchases related to the administration of workers compensation claims.
- Risk Management should incorporate a system of review in order to improve payment accuracy and timeliness.
- Risk Management should follow the City's cash handling policy in regards to revenues received.

What CAO Found

We found that payments on workers compensation claims were generally accurate in amount, properly supported, authorized, and timely paid. However, we did find a number of specific issues, mainly related to the control structure as well as payment accuracy and timeliness. Specifically, we found the following:

- A number of users who had excessive or inappropriate access rights to the workers compensation claim administration system, including users who had the ability to issue an unlimited number of checks through the system for unlimited amounts.
- We were unable to locate adequate support confirming that workers compensation incidents were reviewed and approved by the injured worker's employer for 28 out of 159 (17.6%) claims tested.
- We learned that Risk Management is not always going through the procurement process when purchasing services related to the administration of workers compensation claims (e.g. surveillance).
- Various benefit payments were inaccurately and/or untimely paid to injured employees.
- We noted various violations of the City's cash handling policies.





Council Auditor's Office

Risk Management Workers Compensation Audit

January 20, 2017

Report #792

Released on: April 13, 2017

EXECUTIVE SUMMARY

AUDIT REPORT #792

INTRODUCTION - 1 -

STATEMENT OF OBJECTIVE - 1 -

STATEMENT OF SCOPE AND METHODOLOGY - 2 -

REPORT FORMAT..... - 2 -

SUGGESTED ADDITIONAL AUDIT WORK..... - 2 -

STATEMENT OF AUDITING STANDARDS - 2 -

AUDITEE RESPONSES - 3 -

AUDIT CONCLUSIONS - 3 -

AUDIT OBJECTIVE..... - 3 -

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



January 20, 2017

Report #792

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Risk Management Division, Workers Compensation area. This area is responsible for administering the workers compensation program for the City of Jacksonville, including all constitutional officers and independent agencies, except the Jacksonville Transportation Authority (JTA).

The City is self-insured for workers compensation, meaning that the City assumes the financial risk of covering the costs of workers compensation claims. In addition to being self-insured, the City also purchases excess insurance coverage from an outside company to cover workers compensation liability above \$1,250,000 per claim. In addition to being self-insured, the City also self-administers its workers compensation claims.

The Workers Compensation area employs ten full-time employees. These positions consist of a claims manager, seven claims adjusters, and two claims assistants. The adjusters and assistants report to the manager, who reports directly to the City's Risk Manager. These individuals are directly responsible for administering workers compensation claims, including deciding whether to accept or deny a claim, maintaining appropriate reserves for claim costs, approving the payment of claim benefits and other expenses, complying with State reporting laws, and ongoing correspondence with various outside entities (including legal counsel, health care providers, and the injured parties). One major function which the city outsources to a third party contractor is the review and payment of medical bills related to workers compensation claims.

In recent years, workers compensation claims filed with Risk Management have averaged approximately 1,600 annually. The approved FY 2016/17 expenditure budget for the Workers Compensation area totaled \$26,843,708. Of this total, \$23,193,596 was budgeted for the payment of benefits and reserve level changes based on FY 2016/17 Workers Compensation claims.

STATEMENT OF OBJECTIVE

To determine whether payments on workers compensation claims filed with the City's Risk Management Division were accurate in amount, properly supported, authorized, and timely paid.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit was October 1, 2014 through March 31, 2016. We obtained the population of workers compensation claims with a “loss date” (date that the accident causing the injury occurred) that fell within our audit scope. We selected a sample of these claims based on claim type (such as medical only, temporary disability, impairment, etc.). The sample totaled 159 claims. We tested that the action taken on the claim (i.e. accept or deny) was reasonable and that sufficient documentation was on file that supported the incident that gave rise to the claim. We then tested that certain payments made under these claims were proper based on our understanding of relevant requirements, including State and local law, Risk Management’s internal procedures, and various union agreements. Payment types included: medical payments, indemnity payments (i.e. temporary total and temporary partial disability), impairment benefits, payments to third parties (including vendors), mileage reimbursements, litigation settlements, as well as other payments. We also tested any revenues related to the claims in our sample. Because of the nature of the claims, most claims had payments related to a combination of the types above. In all, we tested a total of 574 payments related to the claims in our sample.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

SUGGESTED ADDITIONAL AUDIT WORK

In limiting the scope of this audit, we did not pursue the following areas, and as such they should be considered for future audit work:

- Certain workers compensation losses are retained by the participants and other losses are pooled amongst the participants based on Chapter 128 of the Municipal Code.

STATEMENT OF AUDITING STANDARDS

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Risk Management Division via Twane Duckworth, City Risk Manager, in a memorandum dated April 10, 2017.

AUDIT CONCLUSIONS

We found that payments on workers compensation claims were generally accurate in amount, properly supported, authorized, and timely paid. However, we did find a number of specific issues, mainly related to the control structure as well as payment accuracy and timeliness.

AUDIT OBJECTIVE

To determine whether payments on workers compensation claims filed with the City's Risk Management Division were accurate in amount, properly supported, authorized, and timely paid.

Internal Control Weakness 1 *System Access Rights Issues – Unlimited Access*

There were 21 active user accounts which had unlimited access to the system. Two accounts belonged to a claims adjuster who was also the designated system administrator. Another account belonged to the City's backup system administrator and one other account was a generic City account that was not used for workers compensation purposes, but still had access to the workers compensation function. The remaining 17 belonged to employees of the vendor who maintained the system. A few examples of the issues associated with these accounts are below:

1. This access granted users the ability to issue an unlimited number of checks for an unlimited amount of money. The designated system administrator for the City was responsible for the release of payments that are above the limit of the other staff adjusters, although this individual was also an adjuster, and had a higher approval authority than the supervisors. The backup for approving checks was an employee of the vendor who also had unlimited access.
2. The users also had the ability to create, modify, and delete contacts (vendors) in the system. This is particularly an issue for the designated system administrator, given that this individual was also a claims adjuster.
3. The designated system administrator was also responsible for maintaining user access rights, including creating new user accounts and resetting passwords. This could be an issue as the employee could create new accounts or log into existing accounts in order to issue fraudulent checks, or conduct other inappropriate actions.
4. The designated system administrator has the ability to permanently clear the system's activity monitoring history.

We note that 7 of the 17 (41%) vendor employee accounts have since been deactivated. The main reason for the accounts being deactivated was because the users no longer needed this level of access. We also learned that the one account not used for workers compensation was no longer needed, and, thus had been deactivated by the Risk Management Division. Having this many employees with this access opens up the City to unneeded risk of loss of funds.

Recommendation to Internal Control Weakness 1

We recommend that the system administrator be someone who is not directly involved in the processing of workers compensation claims. Also, we recommend that Risk Management review the access rights granted to all employees and contractors, and ensure that users are only granted the access rights they need to perform their job functions. This review should be done at a minimum once per year.

Auditee Response to Internal Control Weakness 1

Agree Disagree Partially Agree

Risk agrees that the access rights should be reviewed periodically to confirm only the necessary rights are granted. This will be done every six months. The Systems Administrator has access to all the features of the risks database. Currently, this role is filled by a Workers' Compensation adjuster. This dual function is necessary due to staffing limitations. The partial agreement response is due to the fact that vendor account access cannot be limited as they are the proprietary owner of the system. However, any actions they could take regarding financial activity would have to come through all of the City's protocols to be completed and would be time/date stamped in the system for identification purposes, if necessary.

Internal Control Weakness 2 *System Access Rights Issues*

Besides the excessive number of employees with unlimited access, we found that a number of other users had excessive or inappropriate access rights to the system used to administer workers compensation claims which in some instances also caused segregation of duty issues. Specifically we found:

1. The claims assistant responsible for entering incidents into the system also converted the incidents into claims. Claims are first entered into the system as incidents, and payments cannot be made on incidents until they are converted to claims. The claims assistant also had the ability to issue checks through the system for up to \$2,500 each without additional approval. This creates a segregation of duties issue as the employee could create an incident, convert that incident to a claim, and then issue checks under that claim without any approval.
2. Six claims adjusters had the ability to create incidents, convert incidents to claims, and create/modify vendors in the workers compensation system. These users could also issue checks up to \$5,000 each without approval, meaning these users could establish a claim, create payees, and then issue checks to those payees on the created claim without approval. We were also told that these six users were only back-ups for the functions of

creating incidents and converting incidents to claims, although there were already designated backups for these functions.

3. We learned that the City's Risk Manager and the Workers Compensation Claims Manager had the ability to create incidents, delete incidents, delete claims, and delete claim transactions, although these were not a part of their normal duties.
4. Three users who did not work in the workers compensation area had financial access rights to workers compensation claims. The first user was an employee of the City's third-party medical bill review provider, the second worked in the Risk Management – General Liability area, while the third worked in the Risk Management – Miscellaneous Insured Programs area. These users had the ability to create incidents, convert incidents to a claim, create/modify vendors, issue checks up to \$2,500 each and up to \$100,000 aggregate per claim, and create/modify claim reserves up to \$20,000 per transaction and \$100,000 aggregate per claim. After discussions with Risk Management, it was learned that two of the three users no longer needed this access at all, while the other user only needed the ability to create and modify vendors.
5. All of the system users reviewed had the ability to directly create claims in the system, although actual practice is for an incident to be entered into the system first, which is then converted to a claim. When we informed Risk Management, they were unaware that this ability still existed in the system.
6. There is no periodic review of City employee access rights in the system; this is only done on an "as-needed" basis. We also learned that the City does not conduct any review of the access rights of users who work for the system's vendor.

Recommendation to Internal Control Weakness 2

As noted in ICW 1, we recommend that Risk Management review the access rights granted to all employees and contractors, and ensure that users are only granted the access rights they need to perform their job functions. It should also ensure that access rights do not create any segregation of duties issues. This review should be done at a minimum once per year.

Auditee Response to Internal Control Weakness 2

Agree Disagree Partially Agree

Risk agrees with the findings and has made the following adjustments:

#1 Risk has instituted new procedures and staffing responsibilities with the advent of a Claims Intake Specialist ("CIS"). The CIS has no financial authority or ability whatsoever. The CIS is responsible for entering incidents into the system and converting those incidents into claims, as necessary. The CIS also picks up checks from Treasury and reconciles the check register daily. The Claims Assistant ("CA") position has been modified as well; now serving as a backup to the CIS only for the purpose of entering incidents and converting those into claims. The CA's financial authority is restricting to payments of \$2,500 or less, however, the CA cannot setup a reserve from which to make a payment. The reserve must be established by the adjuster. Furthermore, the CA is no longer authorized to pick up actual checks from Treasury nor perform the daily reconciliation of the check register. These segregations serves as constraints on the

CA's ability to issue checks without a balance. The backup for picking up checks from Treasury is the Workers' Compensation Claims Manager ("WC Manager") or the Risk Management Finance & Administration Manager ("Finance Manager").

#2 The adjusters have the responsibility to place benefits into the hands of the injured workers and must have the ability to do so within the constraining timelines of the Florida Workers' Compensation statute. They are charged with an ethical responsibility to treat the injured workers fairly and have a fiduciary responsibility to the employees and the City. Chapter 128 of the Ordinance Code (the "Code") allows for adjusters to issue settlement checks up to \$5,000.00 without further approval. See Section 128.115(a)(1). By analogy, this office has a policy to allow the adjusters to issue other checks for the claim that are up to \$5,000.00 without further approval.

#3 The Risk Manager and Workers' Compensation Claims Manager ("WC Manager") are no longer capable of deleting incidents, claims, or claim transactions. However, the electronic system for reporting injuries (creating an incident) is live on the intracity portal. This will allow for the supervisor/designee to directly report an injury (create an incident) which comes directly into the database. Therefore, every employee in the City is capable of creating an incident, however, they do not have the access to convert that incident into a claim.

#4 The adjuster in General Liability performs subrogation activity for both General Liability and Workers' Compensation. Accordingly, he must have financial rights in that part of the system. The other two individual accounts referenced have been removed from accessing Workers' Compensation financial activity.

#5 All of the system users do not have the ability to create new claims in the system, however, this feature was still available to the adjusters prior to this audit. The ability to create claims has been removed from the adjusters.

#6 There is periodic review of access rights as warranted, as the security levels are in place as reviewed by the auditor. The database vendor's personnel must have full access to maintain their system, assist us in the day to day workings of the system. We can not make system wide changes to their proprietary system that we use. (As above: personnel from the database vendor which currently have access are assigned to various projects, cleanups, systems enhancements, EDI (Electronic Data Interchange), imports, exports, system maintenance, network issues, as our data is not housed in the City system and is housed in their database. They are required to maintain said data, as our vendor and their IT personnel maintains the system software.)

Internal Control Weakness 3 *Workers Compensation Checks Segregation of Duties Issues*

Checks issued by the Workers Compensation area are sometimes held for pick-up at City Treasury, instead of being mailed out. Treasury accesses a list of individuals who are authorized to pick up checks on behalf of their respective Department/Division to know who is allowed to pick-up checks. This list is maintained and updated by City Accounting. We noted that one of the

six Risk Management employees (16%) who was authorized to pick-up checks at City Treasury also had the ability to issue workers compensation checks in the system. We were told this individual issued approximately two to three checks per month. This employee was also responsible for reconciling checks issued in the claims management system to checks printed by City Treasury.

Recommendation to Internal Control Weakness 3

We recommend that Risk Management establish proper segregation of duties for the issuance, handling, and reconciliation of workers compensation checks by making sure that no employee has the ability to perform more than one of these functions.

Auditee Response to Internal Control Weakness 3

Agree Disagree Partially Agree

The abilities of the Claims Assistant ("CA") has now changed. While the CA retains the ability to issue a check up to \$2,500.00 and no reserving authority, the CA is no longer involved in the process of picking up checks from Treasury nor the daily reconciliation of the check register. The CA will remain as the back up only for setting up claims.

Internal Control Weakness 4 *No Supervisory Review of Activity in the Claims Management System*

Although activity tracking in the claims system has been enabled since 2014, we learned that there is no supervisory review of these reports by the supervisors, due to the voluminous nature of the system generated reports. We also learned that there is currently no other type of supervisory review conducted of workers compensation staff's activity in the claims management system. Reviews could help detect any questionable activity, including users who are inappropriately issuing checks or deleting valuable information.

Recommendation to Internal Control Weakness 4

We recommend that Risk Management begin performing supervisory review of user activity in the claims management system for workers compensation users on a periodic basis.

Auditee Response to Internal Control Weakness 4

Agree Disagree Partially Agree

With the recent change of account managers at database vendor, the new account manager has assisted in the creation of a less cumbersome report for the WC Manager to monitor user activity in each file.

Internal Control Weakness 5 *Lack of Disaster SOPs for Workers Compensation*

We learned that there are no written standard operating procedures (SOPs) in place regarding the processing of workers compensation claims in event of a disaster. The City has general emergency preparedness SOPs, however the existing SOPs for Risk Management Workers Compensation area do not address what to do in the event of a disaster. We also learned that there is not a clearly established system (written or otherwise) regarding how Risk Management would process workers compensation payments during a disaster. For the non-medical payments, this problem is fairly significant given the complexity of processing various workers compensation benefits.

Recommendation to Internal Control Weakness 5

We recommend that Risk Management develop and publish SOPs in regards to disaster policies for workers compensation, or revise the existing SOPs to include disaster policies.

Auditee Response to Internal Control Weakness 5

Agree Disagree Partially Agree

This recommendation is taken under advisement to adjust Risks' SOPs.

Finding 1 *Work-Related Support Issues*

We were unable to locate adequate support confirming that workers compensation incidents were reviewed and approved by the injured worker's supervisor for 28 out of 159 (17.6%) claims in our sample. Issues included First Report of Injury (FROI) forms that were not signed by the supervisor, and FROI forms in which the supervisor did not check that they agreed with the description of the accident, with no other supporting documentation found. Some claims had a combination of these issues. A breakdown of the issues is shown below:

1. 10 of 159 (6.3%) were missing both the supervisor signature and the checkmark indicating agreement.
2. 1 of 159 (0.6%) indicated that the supervisor did not agree with the description of the accident.
3. 1 of 159 (0.6%) showed that both the "Yes" and "No" checkboxes were marked regarding the supervisor's agreement with the description of the accident.
4. 2 of 159 (1.3%) were only missing the supervisor signature.
5. 14 of 159 (8.8%) were only missing the checkmark indicating supervisor agreement with the description of the accident, with no additional support found.

We were also unable to locate support which documented the injured worker's initial visit with the workers compensation medical provider for two out of 159 claims (1.3%). Therefore, we were unable to confirm whether the medical provider determined the injury to be work-related or not.

Recommendation to Finding 1

In the event that incomplete information is submitted, we recommend that Risk Management Workers Compensation follow-up with the responsible parties until the information is provided.

Auditee Response to Finding 1

Agree Disagree Partially Agree

The implementation of online submission for First Reports of Injury is beginning to limit the concerns expressed in this finding. Unlike the paper version, the online form requires the appropriate checkmarks before submission. However, it is important to note, this referenced finding does not impede the investigation of the claim for compensability, nor it is required by Florida's Workers' Compensation statute. The Workers' Compensation adjusters gather and collect all necessary information and documentation in order to determine compensability. Risk partially agrees because it is impractical to continuously follow up with supervisors due to a missing component on the form. The form is only informative to initiate the claim. The adjuster will still have to investigate the claim to determine compensability - which includes speaking with the supervisors. Risk will provide additional training to supervisors to reduce further omissions when they use the paper form.

Finding 2 *Risk Management Workers Compensation Procurement Issues*

We attempted to confirm whether or not there was a valid purchasing instrument in place for payments to third party vendors for workers compensation claim administration costs. These costs included: legal services, surveillance, reporting, as well as other services. We were unable to locate purchasing instruments for several payments we tested. When we asked Risk Management about this, their response was that they had the ability to make purchases as needed for the administration of the program, presumably without having to go through the formal procurement process. When we asked the Procurement Division about this, they were unaware of any provision that exempted Risk Management from having to go through the procurement process for purchases.

Furthermore, we found that 1 of the 70 (1.4%) third-party vendor payments tested was made to a vendor who was not actively registered with the State of Florida's Division of Corporations. The vendor's registration was inactive. When we asked Risk Management Workers Compensation about this, they stated that they did not verify the registration status of vendors prior to engaging them. Had the purchase gone through the procurement process, it is more likely the issue would have been detected and addressed.

Recommendation to Finding 2

Risk Management should review the City's Procurement Code and make sure they are following it when making purchases related to the administration of workers compensation claims.

Auditee Response to Finding 2

Agree Disagree Partially Agree

Risk Management is currently reviewing its operational needs to ensure compliance with the Procurement Code.

Finding 3 *Vendor Employees Adjusting Claims*

We learned that two employees of the City’s third-party administrator who review and approve workers compensation medical bills were assigned as adjusters to 99 of the 1,114 (8.9%) “Medical Only” workers compensation claims during our audit period. These individuals conducted actions such as establishing/adjusting reserves, entering notes/files into the claims system, as well as closing claims, all of which is typically the responsibility of the City adjusters. Having the vendor also serve as the adjuster essentially eliminates this additional layer of review. After discussions with Risk Management, we learned that the two employees were assigned to these claims in order to assist when Risk Management became backlogged with “Medical Only” claims.

As part of our systems documentation review, we determined that one of these users had the same user rights as the City’s claims adjusters in the system used by Risk Management, including the ability to issue City checks, though we did not find any instances where the user issued City checks (see Internal Control Weakness 2, item #4). When we questioned this user’s access rights, Risk Management stated that the user had been given these rights in order to assist in determining the feasibility of outsourcing “Medical Only” claims, and that the access was no longer needed. No mention was made of this user being actively assigned to claims at the time.

Recommendation to Finding 3

Given this particular vendor’s role in reviewing and paying workers compensation medical bills on behalf of the City, we recommend that this vendor no longer be utilized to administer claims.

Auditee Response to Finding 3

Agree Disagree Partially Agree

This vendor is no longer administering any claims.

Finding 4 *Deleted Claim Numbers*

We identified 19 missing claim numbers in our audit population of 2,259 claims. We learned that 18 of these 19 numbers were deleted, due to either being duplicate or test claims. The remaining claim was voided. The main difference between a void and a deleted claim is that with a void a record of the claim is maintained in the system.

The reason for the need to delete or void tends to be due to an incident/claim being set-up inadvertently in duplicate or the office creating a test claim; therefore, a claim number would need to be deleted/voided. Once this number is deleted, it cannot be reused. Although the reasons for the deletions provided by Risk Management make sense, we were unable to confirm that these were truly the reasons for the deletions as the only detail that could be seen was who deleted the incident/claim and when. It is possible that some or all of these deletions were valid claims or incidents that should not have been deleted.

In conversations with Risk Management, we were told that the ability to void claims in the system was not always available, but the capability was recently added. They plan to void claims instead of deleting them going forward.

Recommendation to Finding 4

If a claim is created in error, we recommend that it be voided in the system, not deleted. Furthermore, in order to minimize the number of claims that need to be voided, we recommend that Risk Management cease establishing live claim numbers for test purposes, and that the ability to create claims in the system be limited to a smaller number of users (preferably one designated individual and a back-up). Also, supervisory approval should be required prior to voiding a claim in the claims management system.

Auditee Response to Finding 4

Agree Disagree Partially Agree

The ability to void claims is a new feature in the database. Previously, the only option to address an inadvertently created claim was to delete the claim in the database. Some claims were accidentally created in the live system during a testing phase that necessitated deletion. If that situation were to occur today, the claim would be voided instead of being deleted.

Finding 5 *Risk Management Reimbursing Employers Through Their Employees*

During our detail testing, we found 1 of 20 (5%) claims in our sample included a payment to an employee for workers compensation benefits, although the employee was already being advanced payments by their employer.

The employee was being directed to sign over the checks from Risk Management to the employer as a reimbursement for the 2/3 workers compensation portion. However, state law requires carriers to reimburse the employer for advanced payments, if the employee is entitled to workers compensation benefits. Therefore, Risk Management was required to pay the checks directly to the employer in this circumstance.

Recommendation to Finding 5

In the event that employers issue advance workers compensation benefit payments to employees, we recommend that Risk Management reimburse the employers directly, instead of issuing the check to the employee.

Auditee Response to Finding 5

Agree Disagree Partially Agree

Risk agrees and will make this change accordingly.

Finding 6 *Impairment Benefit Payment Issues*

Florida Statutes provide for impairment benefits for injured employees, if an impairment still exists once the employee has reached maximum medical improvement. The benefit amount and length of time for the benefit payments are dictated by Section 440.15 (3) of the Florida Statutes. The same section of the Florida Statutes requires that the employee’s impairment benefit payment be reduced by 50% if while they are being paid the impairment benefit they earned pay equal to or greater than their average weekly wage as calculated when the employee was injured. We found 14 of 47 (29.8%) impairment benefit payments tested were either underpaid or overpaid, mainly due to the 50% reduction being incorrectly applied. These payments resulted in a net underpayment of \$6,602.45. Of the 14 incorrect payments:

1. 13 were underpayments and totaled \$6,642.28. The cause of these underpayments was Risk Management reducing the benefits due by 50%, even though we confirmed that the employee was being paid less than their average weekly wage for the impairment payment period, and therefore should have received the full impairment benefit. One of these payments also did not agree to supporting documentation (payment was \$0.20 less than the support due to error).
2. One was an overpayment that totaled \$39.83, and appeared to include an interest and penalty payment in the employee’s impairment benefit check, even though we were unable to locate supporting documentation confirming this. Also, for this payment, the time frame that the payment was applicable to did not agree with supporting documentation.

Also, 8 of the 47 (17%) payments tested were not paid in a timely manner based on Florida Statute requirements. These payments ranged from two days late to twenty-six days late.

Recommendation to Finding 6

We recommend that Risk Management have payments occasionally reviewed by those other than the assigned adjuster to ensure payment correctness and timeliness.

Auditee Response to Finding 6

Agree Disagree Partially Agree

Risk agrees and will make this change accordingly.

Finding 7 *Temporary Disability (Non-JSO/JFRD) Payment Issues*

We noted the following issues related to temporary disability payments made to non-Jacksonville Sheriff's Office (JSO) and non-Jacksonville Fire Rescue Department (JFRD) personnel:

1. In general, employees are entitled to up to 20 working days of full pay when they go on workers compensation leave. Practice is to treat the first seven calendar days as regular pay. After that, employees receive supplemental pay in addition to their workers compensation payments. We discovered that employees are being limited to 13 working days of supplemental pay, while the employee would need to receive the supplemental pay for 15 working days to get to 20 total working days of full pay, given that the period of regular pay is seven calendar days, not working days. In our sample, 9 of the 20 claims tested involved employees who were out on workers compensation for at least 20 working days. All of these individuals were limited to 13 working days of supplemental pay meaning they did not receive full pay for 20 working days.
2. 2 of 20 (10%) claims tested were paid using the wrong average weekly wage. Risk Management identified the issue and made subsequent payments to correct the discrepancies for these payments. However, these errors resulted in the City having to pay a total of \$1,166.92 in interest and penalties for multiple incorrect payments under these claims, including the payments tested.
3. For 2 of 20 (10%) claims tested, the employee was prospectively paid for temporary disability benefits, but returned to work prior to the end of the benefit period. It does not appear that Risk Management recouped any of the benefit paid. In one case, this resulted in an overpayment of \$207.90. In the other case, we were unable to estimate the amount of the overpayment due to the employee working for another agency.
4. 5 of 34 (14.71%) payments tested were not paid in a reasonably timely manner. These payments were anywhere from 6 days late to 49 days late. One of these late payments also resulted in interest and penalties totaling \$173.40.
5. For 1 of 20 (5%) claims tested, a duplicate payment was made to an employee totaling \$366.89. The duplicate payment was made because the employee claimed they never received their check due to an address change. However, we confirmed that both the initial check and the replacement check were both cashed and endorsed by the employee.
6. For 1 of 20 (5%) claims tested, the employee had not been switched to a workers compensation (off-duty) status in the City's HR system in a timely manner.
7. For 1 of 34 (2.94%) payments tested, the payment was processed and paid by Risk Management directly, instead of going through City Payroll for processing. This appears to have resulted in the employee being overpaid by \$31.20.

Recommendation to Finding 7

We recommend that the employee be paid the full amount of supplemental benefit due, in accordance with the applicable collective bargaining agreement. We also recommend that Risk Management be involved in confirming the working dates that an employee should be paid supplemental benefits for, as opposed to these dates being determined solely by the employer and payroll/TAS.

We also recommend that Risk Management implement an internal system of review to help ensure temporary disability payments are made in an accurate and timely manner.

Lastly, we recommend that Risk Management seek recovery of the \$366.89 duplicate payment noted in item #5 above.

Auditee Response to Finding 7

Agree Disagree Partially Agree

Risk, as the subject matter expert, will amend its procedures to assist payroll in identifying the supplemental benefit dates for payroll so they can properly comply with the collective bargaining agreements.

Also, Risk is pursuing recovery through payroll of the \$366.89 duplicate payment.

Finding 8 *Third-Party Payment Issues*

As part of our testing of payments to third parties (i.e. vendors), we noted the following exceptions:

1. 5 of 70 payments tested (7.14%) had issues regarding supporting documentation. Some of these documentation issues resulted in the incorrect amount being paid. See breakdown below:
 - We found two payments in which the amount paid by the City differed from the amount due per supporting documentation. One payment was made that exceeded the amount due per the invoice by \$300.00. The second payment made was \$0.50 less than the invoice amount. Combined, these two payments resulted in a net overpayment of \$299.50. It should be noted that after we communicated the \$300.00 overpayment to Risk Management, the money was recouped from the vendor.
 - The support for one payment was a subsequent invoice which only listed a total due and did not breakdown the services performed by the vendor. This payment totaled \$1,429.05.
 - We were unable to locate sufficient supporting documentation for two other payments. These two payments had a combined value of \$118.65.

2. We located one payment for services that did not appear to have been requested by Risk Management. The payment totaled \$750.00. It should be noted that after we questioned this payment, Risk Management recouped the \$750.00 from the vendor.
3. We noted two other issues related to third party payments:
 - One payment totaling \$1,000.00 was initially paid to the wrong payee due to error. The check to the wrong payee was refunded to the City, and a new one was issued to the correct payee.
 - A duplicate payment was made on an invoice worth \$94.25 due to adjuster error. However, the vendor claimed that the second check was destroyed upon receipt and never cashed, although the check had not been voided in the claims management system at the time we discovered it.
4. 6 of 70 (8.6%) payments tested were not paid for within 45 days of the invoice date. The amount of time between the end of the 45-day period and the actual payment date ranged from approximately one month to four months.
5. 2 of the 70 payments tested (2.8%) were medical payments that should have been submitted to the third party administrator for review and payment, but instead were paid for directly by Risk Management. These payments totaled \$4,639.60.

Recommendation to Finding 8

We recommend that adjusters always require complete, accurate supporting documentation prior to authorizing a payment, and that the payment be made in a timely manner. If applicable, medical billings should be forwarded on to the third party medical bill administrator for review and payment.

Auditee Response to Finding 8

Agree Disagree Partially Agree

Accurate supporting documentation is necessary and should be there prior to issuing a payment.

Finding 9 *Claims Incorrectly Categorized*

We found some claims that were incorrectly categorized in the claims management system.

1. During detail testing, we identified:
 - a. 1 of 159 (.6%) claims tested was incorrectly categorized. This claim was categorized as “Medical Only”, but was actually a “Denied” claim.
 - b. Four of seven (57.14%) claims that were categorized as “Compensability Issues” (claims whose compensability was in question) appeared to have been resolved, as each of the four claims were denied. The claims were not re-categorized to reflect this.
2. During analytical testing, we identified:
 - a. One claim was categorized as “Medical Only”, but was a “Temporary Total Disability” claim. This was found during our analytical review of 1,114 “Medical

Only” claims. These claims were reviewed on a mass scale for reasonableness only.

- b. One claim was categorized as “Temporary Total Disability”, but was actually an “Information Only” claim. This was found during our analytical review of 1,515 claims. These claims were reviewed on a mass scale for reasonableness only.

While not a significant number of issues were noted, all claims do need to be properly categorized for reporting purposes.

Recommendation to Finding 9

We recommend that Risk Management periodically review active claims to determine if the assigned claim types are accurate. This should always happen when the nature of a claim changes or new information becomes available that may lead to a change.

Auditee Response to Finding 9

Agree Disagree Partially Agree

The adjusters have been made aware of the importance of timely posting of the correct claim types.

Opportunity for Improvement 1 *Establish 24-Hour Workers Compensation Accessibility*

According to Risk Management’s webpage on the City’s website, employees who have sustained workplace injuries should call the main office line for immediate assistance. However, when the office is closed, the caller cannot speak to a live person and must leave a message. This message will not be returned until the next business day.

Many City employees work non-standard business hours (i.e. police officers, firefighters, etc.). If an employee working outside of normal business hours were to suffer an on-the-job injury, the accident would not be addressed by a workers compensation employee until the next business day at the earliest. Depending on the timing of the incident, it could be nearly five days before a call is returned in some circumstances (if an incident were to occur after close of business on the Wednesday before Thanksgiving, the next business day would be the following Monday).

We contacted a county government in Florida who also operates a self-insured, self-administered workers compensation program, and learned that they offer a 24-hour hotline for questions and to report claims. The hotline is operated by the county’s Medical Care Management Provider, who also happens to be the same company the City contracts with for the review and payment of workers compensation medical bills.

It should be noted that Risk Management is in the process of implementing a module on the City’s employee portal where First Reports of Injury (“FROIs”) and claims can be filed online. However, not all areas of the consolidated city would have access to the City’s employee portal (such as the independent agencies), and an injury could occur somewhere where there is no

immediate access to a computer or internet connection. This also would not assist injured employees or supervisors who wish to speak to a live person.

Recommendation to Opportunity for Improvement 1

We recommend that Risk Management consider the cost-effectiveness of implementing a mechanism that allows for injured employees and their supervisors to ask workers compensation questions or report accidents 24 hours a day. Some options could include rotating staff schedules or contracting the services to a vendor.

Auditee Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

We will take this recommendation under advisement. A 24 hour hotline does not appear feasible at this time. However, accidents may be reported 24 hours a day via the online submission of First Reports of Injury and by alternate paper means, such as fax or e-mail. Additionally, if Risk Management is closed, the injured workers may seek treatment at any emergency facility, after normal business hours, weekends and holidays.

Opportunity for Improvement 2 *Formula Not Considering Part-Time Employees*

As part of our testing, we discovered that the formula used by the City’s payroll system to calculate an employee’s workers compensation temporary disability benefit assumes a 40 hour work week, even if the employee is part-time. This could result in employees being underpaid if this rate is multiplied by their normal work week in order to determine benefits due. In one example we reviewed, the part-time employee was underpaid by \$15.53.

Recommendation to Opportunity for Improvement 2

We recommend that Risk Management, Payroll Office and the Information Technologies Division work together in making the appropriate adjustments to the formula utilized by the City’s payroll system so that the correct benefit due is automatically calculated for part-time employees.

Auditee Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

The Divisions have met and cofirmed that the formula can be changed to use the employee “actual” average weekly hours for the 13 weeks instead of a 40 hour work week.

Opportunity for Improvement 3 *SOP Improvements*

We noted some areas where Risk Management could improve its workers compensation SOPs. Specifically, there is presently minimal language in the SOPs outlining the payment process. Examples of what could be added include:

- An explanation of major payment types;
- Who is authorized to initiate payments (by position);
- General explanation of the payment issuance process for major payment types (e.g. review of supporting documentation, and check request process);
- The approval process for payments over an initiator's limit;
- Process for the handling and custody of checks.

The City hired a third-party risk management consulting firm to conduct a claims administration audit of the Public Liability and Workers Compensation areas. Based on their report dated September 24, 2015, one of the recommendations was that Risk Management "... update its Best Practices to set a standard for payment timeliness ..." in regards to workers compensation. Our understanding was that Risk Management had not yet taken any action in regards to the consultant's recommendations on improving the SOPs.

The SOPs also reference a procedure where employees who are out of the office should have their email checked daily by another employee while they are out. This language is problematic for two reasons. The first is that the language does not reflect current practice. In actuality, employees will place an out of office auto-reply message on their email advising the sender to contact the main office line. Second, the language as written may imply that employees should share their email log-in and password information with another employee when they are to be out of the office, which is not a proper practice from an IT security standpoint.

Recommendation to Opportunity for Improvement 3

We recommend that Risk Management update their SOPs to incorporate the general procedures involved in workers compensation payment processing. We also recommend that Risk Management update the SOP language related to out-of-office procedures in order to reflect the current process and to minimize confusion for future hires who may be unfamiliar with the process.

Auditee Response to Opportunity for Improvement 3

Agree Disagree Partially Agree

Risk agrees and will make this change accordingly. We will review the current procedures for updates.

Supplemental Internal Control Weakness 1 *Various Violations of the City’s Cash Handling SOPs*

We noted various items that violated the City’s cash handling policy and procedures. In fiscal year 2015, Risk Management collected \$710,052.60 in workers compensation related revenues. These revenues primarily involved reimbursement of certain workers compensation costs from the State, as well as subrogation payments. These payments were usually in the form of checks, but on rare occasions could also be cash. We observed, and were informed, that when revenues were received by Risk Management, they were given immediately to an employee who was responsible for:

- recording the payments in the claims system;
- preparing the deposits in the cash receipt system;
- delivering the payments to the Tax Collector for deposit.

This same employee also performed the monthly reconciliation of receipts to FAMIS (City accounting system) without any supervisory or third party review conducted of this function. This employee also did not have a back-up on any of these functions. If checks were received while the employee was out, they would be locked up by another employee, and then given to the responsible employee for processing when the employee returned to work.

We also learned that when Risk Management voided a check, the responsible individual would return the check to City Treasury via interoffice mail, instead of hand delivering it to them even though they are on the same floor as the Treasury Division in City Hall.

Recommendation to Supplemental Internal Control Weakness 1

The Office of Risk Management needs to follow the City’s cash handling policy and procedures. This would include implementing processes that would separate the functions of recording the cash receipts in the claims system, preparing and delivering the deposit, and the reconciliation of Risk Management revenues. Furthermore, prior to deposit, the cash receipts should be reviewed and approved by a supervisor, as should all reconciliations of revenue. Risk Management should also designate an appropriate individual as a backup for the preparation of deposits.

Lastly, all voided checks should be returned to Treasury via hand delivery by authorized Risk Management personnel, and never put into interoffice mail.

Auditee Response to Supplemental Internal Control Weakness 1

Agree Disagree Partially Agree

As the auditor noted, previously there was only one employee responsible for recording the payments in the claims system; preparing the deposits in the cash receipts system; delivering the deposits to the tax collector office; and voiding live checks being placed into interoffice mail. At that the time there was only one financial person capable handing these financial responsibilities. It was very difficult for these duties to be handled by a lone individual.

As of FY17 the procedures have been updated. There are now three people in the financial department who can back each other up in all financial duties.

The first adjustment: All subrogation payments will be initially logged by the Claims Intake Specialist at the front desk. After logging this receipt, the payment is provided to the subrogation specialist who logs the payment into the claims system. If the form of payment being received is cash, the Financial Manager must be present in order to complete the receipt of the payment. If the Financial Manager is not available then the subrogation specialist must get another manager to witness the cash transaction. The manager witnesses and verifies the amount that is given to the subrogation specialist, as well as signs the receipt being given to the payee. On a monthly basis the Financial Coordinator will reconcile FAMIS to the claims system for all subrogation payments received in that month. The Financial Manager reviews the completed reconciliation for accuracy by utilizing the payment log created by the Claims Intake Specialist as well as the cash receipts log created by the subrogation specialist. All other collections, that are not subrogation, are posted in the claims system by the Financial Manager; who then will give the live checks to the Financial Coordinator who then follows the deposit procedures.

The second adjustments: All deposits are brought to the Financial Coordinator on a daily basis. The Financial Coordinator will record the deposits into the cash receipts system before 2PM every day. If the deposits cannot be completed within that time frame, the Financial Coordinator will drop the deposits in the Risk Management safe before the end of the day, to be completed the next business day. When the cash receipts are completed a third employee takes the deposits to the tax collector office.

The third adjustment: All stop payments and e-check payments that require the live checks to be returned to Treasury are now done on the same day they were received by the Financial Coordinator. He/she walks the checks directly to the front desk of the Treasury department and hand delivers to them directly.

Supplemental Internal Control Weakness 2 *Risk Management File Cabinets Are Not Locked*

Workers compensation claim files are stored in file cabinets throughout the Risk Management office. We were told that adjusters open the cabinet doors when they arrive for work, and then close them before they leave. The cabinets are never locked as adjusters sometimes need to access each other's claim files if the assigned adjuster is not available. These files can contain both sensitive and confidential claim information, including employee social security numbers, medical records, and information pertaining to ongoing litigation.

The Risk Management offices are behind a reception area with two sets of locked doors. While this would help prevent unauthorized entry by someone who does not already have access to the Risk Management offices, there are many individuals who already have access to this area who are not involved with workers compensation.

It should be noted that Risk Management is currently converting their paper files to electronic format by scanning the physical files into electronic form and shredding the physical files. Risk Management's plan is to eventually go paperless, although as of the time of our audit, physical files still existed.

Recommendation to Supplemental Internal Control Weakness 2

We recommend that all cabinets holding workers compensation claim files be locked when not in use.

Auditee Response to Supplemental Internal Control Weakness 2

Agree Disagree Partially Agree

Risk agrees and will institute a file cabinet locking policy.

Supplemental Opportunity for Improvement 1 *Establish Regular Workers Compensation Training*

We learned that workers compensation training is offered to various City areas. The training is geared toward supervisors and covers topics such as workplace injury reporting, benefits that are available to the injured employee, and other best practices. However, we were told that this training is not offered on a regular basis but instead is provided only at the request of the particular department, agency, etc. We were told that since 2012, only one training session of this nature has been provided.

Recommendation to Supplemental Opportunity for Improvement 1

Risk Management should consider offering regular training opportunities to employees in all areas who participate in the City's workers compensation plan, instead of by request only. Risk Management should use their expertise to determine how often training will be offered which could be quarterly or semiannually to new supervisors.

Auditee Response to Supplemental Opportunity for Improvement 1

Agree Disagree Partially Agree

This recommendation is in line with the Risk Manager's proposed changes in scheduling training for departments and agencies.

Supplemental Opportunity for Improvement 2 *Provide Injured Employees with List of Approved Medical Providers*

Generally, employees who suffer injuries that may be covered under workers compensation must seek treatment from approved medical providers. Risk Management maintains a list of authorized medical providers. Although this list is posted on Risk Management’s online portal page, it is not directly provided to the injured employee, even though a packet of various workers compensation information is mailed to the injured employee after the accident is reported. If an injured employee sees an unauthorized medical provider, they may be required to pay the cost of the visit out-of-pocket.

Recommendation to Supplemental Opportunity for Improvement 2

We recommend including the listing of authorized medical providers in the initial packet of information that is sent to the injured employee.

Auditee Response to Supplemental Opportunity for Improvement 2

Agree Disagree Partially Agree

Risk agrees and will begin including the list of City initial treatment sites in the initial packet sent to the injured employee.

We appreciate the assistance and cooperation we received from Risk Management during the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Brian Parks, CPA, CIA
Sean Costigan, CPA, CFE
Kyle Thorpe