



RISK MANAGEMENT

CLAIMS AND PAYMENTS

Exit Conference Date: October 14, 2008

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Report No. 09 – 03

CITY OF ORLANDO

OFFICE OF AUDIT SERVICES AND MANAGEMENT SUPPORT

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TABLE OF CONTENTS

Memorandum.....	1
Executive Summary	2
Background	8
Summary of Recommendations and Responses	9
Issues and Recommendations	11
Create Internal Operations Manual.....	12
Develop Procedure to Document Actions on Claims	13
Streamline and Control the Process of Paying for Vehicle Repairs	14
Review Payment Process and Integrate with JDE	16
Enhance Oversight of Third Party Administrator	19
Continue to Review Risk Management Reserves	21
Add Oversight of Vendor Additions to Risk Master Software.....	23
Share Claims Information with Affected Managers	24
Improve Timely Receipt of First Report of Incident Forms.....	25
Exhibit A – Specific Findings Regarding Third Party Administrator Claims and Payments.....	27
Exhibit B - Risk Management Fund Net Assets	28



CITY OF ORLANDO

MEMORANDUM

To: Rebecca Sutton, Chief Financial Officer

From: Beryl H. Davis, CPA, CGFM, Director
Office of Audit Services and Management Support

Date: Exit Conference: October 14, 2008; Report Issued: January 27, 2009

Subject: Risk Management Claims and Payments (Audit Report No. 09-03)

The Office of Audit Services and Management Support has performed an audit of the claims and payments of the Risk Management Administration Program (Risk Management). Our objective was to determine whether there are adequate controls over the claims and payment processes. We also reviewed the oversight performed by the Risk Management Committee and evaluated whether the Risk Management Fund is effectively managed.

Our examination was conducted in accordance with generally accepted government auditing standards, except that we did not perform tests of data gathered from computer-based resources. Our procedures included a review of claims adjustment practices and invoice payments for workers' compensation and general/automobile liability claims. We also performed a limited review of claims and payments processed by the City's third party administrator (TPA) for Fire Department workers' compensation.

We were impressed with the professionalism of the claims adjusters employed by the City. These individuals take great pride and care to ensure that claims against the City of Orlando are properly documented and that the City and the claimants are equitably served.

Overall, we found that the management of claims by City staff is effective. This report identifies several recommendations to improve and enhance the Risk Management Administration Program. Chief among these recommendations is the need to increase oversight of the TPA for Fire workers' compensation claims. We believe that the professionals in Risk Management are capable of adding this important function to their current responsibilities and doing so would improve the services provided.

We would like to express our appreciation to the managers and employees consulted during this audit for their courtesy and cooperation.

BHD/am

c: Honorable Buddy Dyer, Mayor
Byron W. Brooks, Chief Administrative Officer
Mayanne Downs, City Attorney
Raymond M. Elwell, Deputy Chief Financial Officer
James Reynolds, Fire Chief
Laurie J. Botts, Real Estate Division Manager

EXECUTIVE SUMMARY

Objectives, Scope, and Methodology

Page 11

The objectives of this audit were to determine if policies and procedures demonstrate adequate internal controls over the functions and responsibilities of the Risk Management Administration Program (Risk Management); whether the selection and use of vendors and the processing of payments complies with policies and procedures; whether the processing of claims complies with policies and procedures and best practices; and whether the oversight of the function by the Risk Management Committee and financial management of the Risk Management Fund is in accordance with policy and operating effectively.

The scope of this audit includes the current policies and procedures of the section. Detailed testing was performed on claims created and payments made in FY 2006-07.

We performed reviews of claims and payments processed by the Risk Management Administration Program and the City's third party administrator (TPA) for the workers' compensation claims of the Orlando Fire Department. We held discussions of current procedures and practices with Risk Management employees and employees of other City sections (Accounting, Technology Management, and City Attorney) that assist Risk Management in the performance of its responsibilities.

We did not review the overall management of risk by the City of Orlando, and therefore, did not review the strategic actions of the Risk Management Committee or review the appropriateness and adequacy of the excess insurance held by the City to mitigate the costs of large losses.

**Create
Internal
Operations
Manual**

Page 12

The Risk Management Administration Program section currently does not have an operations manual that details the standards and practices of the section. Each claims adjuster uses his or her own background and knowledge of best practices to guide how to manage each claim. However, it is important to be consistent in the completion of required tasks and processes, especially when four individuals are responsible for processing claims for the City. An internal operations manual is a useful tool for both management and employees to standardize processing steps.

An operations manual would increase the efficiency and effectiveness of the current risk management operation by ensuring that the right claims processing methods are used and that these methods are consistently applied.

**Develop
Procedure to
Document
Actions on Claims**

Page 13

Risk Management uses a purchased software application to manage and maintain a database of claims and payment information. This system, Risk Master, has a feature named “diary notes.” This feature allows the claims adjuster to note actions taken to process a claim and allows others with access to Risk Master (e.g., the Risk Manager) the ability to review and monitor the claim. We found that the diary notes feature was not used consistently across the claims we reviewed. This important feature is a valuable information and documentation tool and should be used on a consistent basis by the claims adjusters. For example, when a system user does not enter any diary notes, there is no record created that shows that the claims adjuster has acted on the claim or the manager has adequately monitored the claim.

Risk Management should develop an internal procedure requiring the use of the diary notes tool to note the monitoring of claims determined to need periodic monitoring. The procedure should also address the key decisions, action points and contacts that require diary notation, requiring a comment be added to indicate and document that regular claim

monitoring by adjustors and management is taking place.

**Streamline
and Control the
Process of Paying
for Vehicle
Repairs**

Page 14

The processing of vehicle repair invoices is complicated by several factors: the proper confirmation of repair work performed, the payment of invoices for repairs, and the internal charges made to the department in the form of a \$2,500 deductible.

As both Risk Management and Fleet Management are now aligned as “sister” sections under the Finance Department, it is a perfect opportunity for a high level discussion of how to streamline the processes of accepting vehicle repairs performed by vendors, paying the invoices and charging the deductible to the responsible party. For example, the current process could be altered to only involve Risk Management when the repair costs from automobile accidents are expected to be over the \$2500 deductible amount. Streamlining this process may decrease the cost of processing vehicle repair payments.

We suggest that to provide better control over vehicle repair payments and a more efficient process, a discussion among the principals involved in the Finance Department be held to develop processes that will provide assurance that vehicle repairs have been completed satisfactorily, that items charged on the invoice are reasonable and accurate, and that the invoices are paid in the most efficient manner.

**Review and
Integrate
Payment Process**

Page 16

At the outset of this review, the Deputy Chief Financial Officer asked for an inquiry into why Risk Management invoice payments are processed differently from other City departments and divisions. This report outlines in more detail the current process used by Risk Management and the initial reasoning for creating these procedures.

We inquired of current Risk Management employees, the former Risk Manager and City accounting, legal and technology management personnel regarding why this payment structure

was initially created. There were several reasons offered to explain the need for a process distinct and separate from the normal accounts payable process used by the other City departments and division. Among these reasons were: 1) the need to have a daily check process so that payments to vendors are made in a timely fashion; 2) the need to pick up checks so that claimants agreeing to a settlement complete the settlement documents prior to receiving the check; 3) the need to exchange checks written to compensate individuals for the loss of a vehicle with the title of the “totaled” vehicle (and thereby allow the claimant to immediately use the payment to buy new transportation); and 4) the need to protect medical information on workers’ compensation claim payments.

We reviewed each of the above items and discussed their impacts and ramifications with Risk Management, Accounting and Technology Management personnel. Overall, we found that the current Risk Management claims payment process is a time-consuming process vulnerable to human error. In addition, it leaves no means for tracking and documenting individual check payments in the City’s centralized accounting system, JDEdwards (JDE).

In order to improve effectiveness and efficiency in the accounting process, Finance officials, with Risk Management and Technology Management, should work together to completely integrate the Risk Management accounts payable process into the JDE accounts payable system. This would ensure the process benefits from the internal controls already in place, eliminate the journal entry process, simplify 1099 preparation, and provide a way to better document individual payments in the JDE system.

Until the time when current processes are being discussed and integrated into JDE, Risk Management staff should perform a monthly reconciliation of the Risk Master check register to the JDE journal entry to provide a check as to its accuracy.

We performed a brief review of the claims and payments processed by the Third Party Administrator (TPA) for the workers' compensation claims of the Orlando Fire Department (OFD). The TPA, Unisource, is under contract to the City to perform this task and the contract requires periodic reporting to the City. We found that no City Official, either in Risk Management or OFD is responsible for overseeing this function. Our brief review of the claims and payments processed by Unisource during the audit period showed several instances of internal control weaknesses and non-compliance with contract provisions.

We examined the contract with Unisource and found that it requires Unisource to have a dedicated adjustor assigned to handle City claims. We discussed the Unisource arrangement with OFD management and found that they have had several recent contacts with the company to encourage it to improve its service to the City. We also found several instances of contractual noncompliance by the TPA which, due to the lack of City oversight, were not found and corrected. They include: 1) required reporting to and communication with Risk Management regarding claims; b) the turning over of claim files (both electronic and paper) to the City six months after the claim is closed, and c) the payment of penalties and interest for invoices not paid timely.

The Chief Financial Officer, with the Chief of Staff, Chief Administrative Officer and the City Attorney, should discuss the details of the TPA arrangement and determine the proper method for overseeing the management of these workers' compensation claims. Once oversight methods are determined, the entity responsible should study and rectify the payment of penalties and interest by the TPA and whether such payments should be reimbursed by the City.

**Continue to
Review Risk
Management
Reserves**

Page 21

We examined the financial information for the Risk Management Fund for the past five fiscal years (FYE 2003 to FYE 2007). We found that the Net Assets balance in the Risk Management fund has grown from \$6.996M in 2003 to \$19.199M in 2007. The Net Assets of a fund are the difference between the fund Assets and Liabilities and are an indicator of the financial soundness of the fund.

We also compared the Net Asset balance for the last five fiscal years to the City's Reserve Policy minimum and maximum and found that the Risk Management fund reserves have been consistently higher than the maximum. At FYE 2007, the Net Asset balance of \$19.199M was well above the calculated reserve maximum of \$5.362M.

The Chief Financial Officer has initiated a review of the Reserve Policy, as it was written by a previous management team. The current management team has reported that it is also important for an analysis of the Risk Management fees to determine whether they adequately collect the revenues necessary for the effective operation of the Risk Management Fund.

To continue the effective fiscal operation of the Risk Management fund, we recommend that the Chief Financial Officer brief the Risk Management Committee annually on the Net Assets of the Risk Management Fund. In addition, the Chief Financial Officer, with appropriate input, should evaluate the Risk Management fee structure to continue efforts to effectively manage the Risk Management Fund Net Asset balance.

Other Issues

Page 23

Three other issues were identified during this review: the need to review and revise the system of adding vendor information into the Risk Master system; that Risk Management should share summary claim, loss and safety data with City management on a regular basis to help prevent accidents and future losses; and the need to develop a more reliable process to monitor receipt of First Report of Incident Forms (DWC-1).

BACKGROUND

The Risk Management Administration Program is responsible for insuring the City's assets at the best price, terms and conditions; managing the City's Workers' Compensation, General and Automobile Liability loss exposure programs; and interacting with the Health and Safety Program staff to avoid and reduce injury and damages to the City's citizens, employees or assets.

The staffing of the Risk Management Administration Program consists of a Risk Manager position, which is currently unfilled, four Claims Adjusters, a Human Resource Specialist, a Staff Assistant and an Office Assistant. Two Claims Adjusters focus on liability claims, while the other two specialize in workers' compensation claims. The Risk Management Administration Program is not responsible for the workers' compensation claims of the employees of the Orlando Fire Department. The City has retained a third party administrator to process these claims.

The operating costs budgeted for the Risk Management Administration Program for FY08 were \$589,706. This is a slight increase over the previous year's budget of \$567,006.

The Risk Management Fund is an Internal Service Fund which oversees the administration of insurance for worker's compensation, auto liability, property and contents and general liability insurance. As such, the Fund collects contributions from the various operating funds for support of Risk Management operations. Internal Service fund billings are based on the projected claims for the year, internal operating expenses, commercial and public entity insurance premiums, State assessments and anticipated claim reserves projected by an independent insurance actuary for the upcoming fiscal year.

For the last three fiscal years, the Risk Management Fund has rebated collected Risk Management fees to the General Fund. The rebate was budgeted at \$3M in FY08 and was possible because funding exceeded the reserves necessary for actual claims and the actuarially determined reserve for incurred, but not reported, claims.

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SUMMARY OF RECOMMENDATIONS AND RESPONSES

RECOMMENDATIONS	RESPONSES
1. Risk Management should create and use an operations manual that includes best practices for claims management.	Concur
2. Risk Management should develop an internal policy and procedure for the proper use of the diary notes feature of the Risk Master software.	Concur
3. Risk Management should discuss with Fleet Management and Accounting how to best streamline and control the process of the payment of vehicle repairs for vehicles involved in accidents.	Concur
4. After the process is updated, Risk Management should codify in either internal policies or City Policy and Procedures the policy of charging a deductible for the cost of repairs caused by accidents.	Concur
5. Finance officials, with Risk Management and Technology Management should work together to fully integrate the claims payments system directly into the JDE system.	Concur
6. In the interim, Risk Management should perform a monthly reconciliation of the Risk Master check register to the JDE system to confirm the accuracy of the accounting for the payments authorized.	Concur
7. The Chief Financial Officer, with the Chief of Staff, Chief Administrative Officer and City Attorney, should investigate methods to increase the oversight of the Third Party Administrator for Orlando Fire Department workers' compensation claims.	Concur
8. Once these oversight methods are determined, the entity responsible should investigate all payments of penalties and interest to determine if they were properly handled in accordance with the contract.	Concur
9. The Chief Financial Officer should brief the Risk Management Committee annually on the Net Assets of the Risk Management Fund.	Concur

RECOMMENDATIONS**RESPONSES**

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|---|--------|
| 10. The Chief Financial Officer should evaluate the Risk Management fee structure to continue efforts to effectively manage the Risk Management Fund Net Asset balance. | Concur |
| 11. The Chief Financial Officer should review and revise the Risk Management process for adding vendors to the Risk Master system to strengthen internal controls. | Concur |
| 12. Risk Management should collect, analyze, and report claim, loss and safety data to City management to enhance their ability to reduce future losses. | Concur |
| 13. Risk Management should develop a process for monitoring receipt of First Report of Incident Forms (DWC-1) to improve compliance with City Policy and Procedures. | Concur |

ISSUES AND RECOMMENDATIONS

Objectives The objectives of this audit were to determine if policies and procedures demonstrate adequate internal controls over the functions and responsibilities of the Risk Management Administration Program (Risk Management); whether the selection and use of vendors and the processing of payments complies with policies and procedures; whether the processing of claims complies with policies and procedures and best practices; and whether the oversight of the function by the Risk Management Committee and financial management of the Risk Management Fund is in accordance with policy and operating effectively.

Scope The scope of this audit includes the current policies and procedures of the section. Detailed testing was performed on claims created and payments made in FY 2006-07.

Methodology We performed reviews of claims and payments processed by the Risk Management Administration Program and the City's third party administrator (TPA) for the workers' compensation claims of the Orlando Fire Department. We held discussions of current procedures and practices with Risk Management employees and employees of other City sections (Accounting, Technology Management, and City Attorney) that assist Risk Management in the performance of its responsibilities.

We did not review the overall management of risk by the City of Orlando, and therefore, did not review the strategic actions of the Risk Management Committee or review the appropriateness and adequacy of the excess insurance held by the City to mitigate the costs of large losses.

Create Internal Operations Manual

The Risk Management Administration Program section currently does not have an operations manual that details the standards and practices of the section. Each claims adjuster uses his or her own background and knowledge of best practices to guide how to manage each claim. We found that each individual has the experience and professionalism needed to manage the claims effectively, but that there is a lack of consistency and standardization in the information documented from one claims adjuster to another.

According to one claims manager, a former Risk Manager had the staff use an operations manual that outlined the standards for processing claims. In addition, there have been more recent attempts to recreate an operations manual, but these efforts were not a priority.

It is important to be consistent in the completion of required tasks and processes, especially when four individuals are responsible for processing claims for the City. An internal operations manual is a useful tool for both management and employees to standardize processing steps. Furthermore, management can use the operations manual as a tool to set processing standards that are both effective and efficient. A consistency in claims processing would also demonstrate to claimants (and possible litigants) that Risk Management is well-run, properly organized and professionally operated.

In addition, while turnover of claims processing staff is not currently an issue for Risk Management, an effective operations manual can be an effective tool for the training of new employees when they are added to the section.

An operations manual would increase the efficiency and effectiveness of the current risk management operation by ensuring that the right claims processing methods are used and that these methods are consistently applied.

Recommendation 1.

We recommend that Risk Management create and use an operations manual that includes best practices for claims

management.

Response

We concur.

**Develop
Procedure to
Document
Actions on Claims**

Risk Management uses a purchased software application to manage and maintain a database of claims and payment information. This system, Risk Master, has a feature named “diary notes.” The feature allows the claims adjuster to note actions taken to process claim and allows others with access to Risk Master (e.g., the Risk Manager) the ability to review and monitor the claim. The diary notes feature can be used to provide a description of the claims, to log communications with attorneys, claimants, outside claim support services, and medical personnel, and to note any action taken on the claim.

We found that the diary notes feature was not used consistently across the claims we reviewed. This important feature is a valuable information and documentation tool and should be used on a consistent basis by the claims adjusters. While we were told that claims can be monitored without adding information to the file, we also noted that if a system user doesn’t enter any comments, there is no record created that shows that the claims adjuster has acted on the claim.

The diary notes feature can be used to provide a comprehensive picture of actions taken and decisions made on a claim. It is also the most efficient and effective method to document that each claims adjuster is performing the required monitoring of the claims. This important documentation is not created if users log in without adding a comment. If issues or problems arise, and there is a lack of diary notation, it is difficult for other adjusters or the Risk Manager to determine what steps have been taken with regard to a claim.

For example, we found cases where the Risk Manager or claims adjuster indicated in Risk Master that a claim would be monitored every 30 days (the terminology used by the employees is that the claim is “put on a 30 day diary”). When

Risk Master records were reviewed in some of these cases, we could not determine whether the case was being monitored as required when no notations were made in the electronic claim file.

Risk Management should develop an internal procedure requiring the use of the diary notes tool to note the monitoring of claims determined to need periodic monitoring. The procedure should also address the key decisions, action points and contacts that require diary notation, requiring a comment be added to indicate and document that regular claim monitoring by adjustors and management is taking place.

Recommendation 2. We recommend that Risk Management develop an internal policy and procedure for the proper use of the diary notes feature of the Risk Master software.

Response We concur.

Streamline and Control the Process of Paying for Vehicle Repairs

Currently, invoices for all repairs made to City vehicles involved in traffic accidents are sent directly to Risk Management, where they are processed and paid from Risk Management Fund resources. We were informed that Risk Management receives an incident report for the accident from the affected City section and a repair estimate from the Fleet Management Division. However, Risk Management does not receive confirmation that repairs have been completed properly and the claims adjusters are, therefore, approving the repair invoices for payment without the knowledge that the repairs were proper and acceptable to the City.

We were informed that the inspection of repaired vehicles is performed by Fleet Management because the staff is most knowledgeable about the nature of repairs and has prepared the repair estimate. However, Fleet management does not receive a copy of the actual invoice for the repair service to match the work performed to the charges for the service and the initial

repair estimate.

Therefore, no confirmation of the services delivered is performed. As a result, Risk Management staff reports that invoices may be paid in advance of the work being completed satisfactorily. In fact, we were informed that Risk Management will pay an invoice simply if the amount due is within reason of the original repair estimate.

In addition to the issue of confirming work performed, the processing of vehicle repair invoices is also complicated by another factor. The current procedure is that all vehicle repair invoices relating to city vehicles in accidents are processed for payment by Risk Management. After Risk Management pays for the repairs, it charges the Fleet Management Fund for all invoices up to \$2,500 as a deductible amount for accidents. This charge is accomplished through a journal entry process to transfer the deductible charges from the Fleet Management Fund to the Risk Management Fund.

As both Risk Management and Fleet Management are now aligned as “sister” sections under the Finance Department, it is a perfect opportunity for a high level discussion of how to streamline the processes of accepting vehicle repairs performed by vendors, paying the invoices and charging the deductible to the responsible party. For example, the current process could be altered to only involve Risk Management when the repair costs from automobile accidents are expected to be over the \$2500 deductible amount. Streamlining this process may decrease the cost of processing vehicle repair payments.

Furthermore, we were informed that the use of a deductible for all City accidents is a procedure that was created in 1992 when the City began to process claims with City staff (prior to 1992, the City used a third party administrator for claims processing). This procedure has never been codified into a City policy and procedure. After the discussion regarding the above issue of streamlining the process for paying invoices for repairs made to vehicle in accidents, it should also be determined how to best codify (either in internal policies or through a City Policy and

Procedure) the use of a deductible charge for City accidents.

We suggest that to provide better control over vehicle repair payments and a more efficient process, a discussion among the principals involved in the Finance Department be held to develop a process that will provide assurance that vehicle repairs have been completed satisfactorily, that items charged on the invoice are reasonable and accurate, and that the invoices are paid in the most efficient manner.

Recommendation 3. We recommend that Risk Management discuss with Fleet Management and Accounting how to best streamline and control the process of the payment of vehicle repairs for vehicles involved in accidents.

Response We concur.

Recommendation 4. We recommend that, after the process is updated, Risk Management codify in either internal policies or City Policy and Procedures the policy of charging a deductible for the cost of repairs caused by accidents.

Response We concur.

**Review Payment
Process and
Integrate with
JDE**

At the outset of this review, the Deputy Chief Financial Officer asked for an inquiry into why Risk Management invoice payments are processed differently from other City departments and divisions. The process is as follows: claim and payment information is entered by Risk Management staff into the Risk Master system. A check register which lists the approved payments for the Risk Management claims is created each day using the Risk Master system. This information is sent electronically to the check writing software and employees of the Accounting and Control Division perform a daily routine to print checks for Risk Management. The check register is then used to review that the printed checks are accurate. Finally, the check register is used by the accountant for the Risk Management Fund to create a journal voucher to charge the

fund for the total amount paid on the check register.

We inquired of current Risk Management employees, the former Risk Manager and City accounting, legal and technology management personnel regarding why this payment structure was initially created. There were several reasons offered to explain the need for a process distinct and separate from the normal accounts payable process used by the other City departments and division. Among these reasons were: 1) the need to have a daily check process so that payments to vendors are made in a timely fashion; 2) the need to pick up checks so that claimants agreeing to a settlement complete the settlement documents prior to receiving the check; 3) the need to exchange checks written to compensate individuals for the loss of a vehicle with the title for the “totaled” vehicle (and allow the claimant to immediately use the payment to buy new transportation); 4) the need to protect medical information on workers’ compensation claim payments.

In order to facilitate a discussion of these matters, Audit Services and Management Support held a meeting and invited all interested parties to participate in a discussion of the current process and possible process improvements. Several ideas for streamlining the current process were raised and some items that needed further research were determined. These items included: 1) clarifying the statutory restrictions over the timeliness of check payments for risk management claims; 2) the possibility of electronically transferring information from Risk Master to the JDE financial system; 3) the requirements for protecting medical information on claimants; and 4) possible improvements in the exchange of information to facilitate the efficient and effective creation of IRS Form 1099s at the end of the calendar year. When we followed up to determine whether any action to change processes had taken place as a result of this meeting, it was indicated that the parties involved are focused on other priorities.

We found that the current Risk Management claims payment process is a time-consuming process vulnerable to human error.

In addition, it leaves no means for tracking and documenting individual check payments in the City's centralized accounting system, JDEdwards (JDE). Further, we found that no one in Risk Management is responsible for reviewing the journal entry created and approved by Accounting which charges the Risk Management Fund for the checks it creates. This oversight process is necessary to ensure that charges are accurate and authorized.

We believe that the current system of accounting for Risk Management payments lacks checks and balances. A precise reconciliation of the checks issued by accounting to the check register created by Risk Management is not possible as the accounting for the check payments is entered into the City's general ledger in summary form. While an experienced accountant is responsible for creating this summary journal voucher, it is possible that an error in its creation could go undetected.

In order to improve effectiveness and efficiency in the accounting process, Finance officials, with Risk Management and Technology Management, should work together to completely integrate the Risk Management accounts payable process into the JDE accounts payable system. This would ensure the process benefits from the internal controls already in place, eliminate the journal entry process, simplify 1099 preparation, and provide a way to better document individual payments in the JDE system.

Until the time when current processes are being discussed and integrated into JDE, Risk Management staff should perform a monthly reconciliation of the Risk Master check register to the JDE journal entry to provide a double check as to its accuracy.

Recommendation 5. We recommend that Finance officials, with Risk Management and Technology Management, work together to fully integrate the claims payments system into the JDE system.

Response We concur.

Recommendation 6. We recommend that, in the interim, Risk Management perform a monthly reconciliation of the Risk Master check register to the JDE system to confirm the accuracy of the accounting for the payments authorized.

Response We concur.

Enhance Oversight of Third Party Administrator We performed a brief review of the claims and payments processed by the Third Party Administrator (TPA) for the workers' compensation claims of the Orlando Fire Department (OFD). The TPA, Unisource, is under contract to the City to perform this task and the contract requires periodic reporting to the City. We found that no City Official, either in Risk Management or OFD is responsible for performing this oversight function. Our brief review of the claims and payments processed by Unisource during the audit period showed several instances of internal control weaknesses and non-compliance with contract provisions.

Currently, the City departments that have regular contact with Unisource are Finance and OFD. Each month, Finance wires a lump sum amount to Unisource to fund the payment of claims expenditures and receives a monthly accounting of these expenditures, which is used to prepare a journal entry to charge OFD for the cost of its workers' compensation claims. An OFD staff member communicates with Unisource daily to get updates on the status of injured employees.

We examined the contract with Unisource and found that it requires a dedicated adjustor at the company to be assigned to handle City claims. We found that due to staff turnover at Unisource, four different adjustors have been assigned to the City contract during the last 28 months. During our examination of claims files at Unisource we found some inconsistencies in claims handling. It should be noted that we were informed that Unisource has been sold twice in the last year, which could have contributed to the lack of consistency.

We discussed the Unisource arrangement with OFD management and found that they have had several recent contacts with the company to encourage it to improve its service to the City. We were informed that OFD management did not believe that Unisource has taken a “proactive” approach to worker injuries and relations with claimants. OFD management stated that a majority of injured employees are not satisfied with the service from Unisource, and that there is a lack of follow-up with injured employees. More recently, OFD met with Unisource in July and reports that there have been improvements, including an agreement to assign a Nurse Case Manager to injured parties for the first month.

We found several instances of contractual noncompliance by the TPA which, due to the lack of City oversight, were not found and corrected. They include: 1) not reporting as required with Risk Management regarding claims; b) the failure to turn over claim files (both electronic and paper) to the City six months after the claim is closed, and c) charging the City for the payment of penalties and interest when invoices are not paid timely.

It appears that the handling of claims by the TPA takes place without adequate oversight; no system has been established for the City and Unisource to exchange information regarding the details of Unisource’s activity on the City’s behalf. Therefore, the City has not been given the opportunity to communicate its expectations or to monitor activities and provide feedback to Unisource. In addition, the City does not have access to the detailed statistics of Fire workers’ compensation claims which can be used by OFD and Risk Management to track injury trends and initiate risk avoidance measures.

We have summarized the findings from our limited review of claims and payments processed by the TPA in Exhibit A.

Our site visit to Unisource indicated that though claims handling in general may be adequate, documentation to back up payments is lacking and because there is a lack of oversight, errors are unlikely to be caught. In addition, there is little

incentive for Unisource to control the cost of claims.

The Chief Financial Officer, with the Chief of Staff, Chief Administrative Officer and the City Attorney, should discuss the details of the TPA arrangement and determine the proper method for overseeing the management of these workers' compensation claims. Once oversight methods are determined, the entity responsible should study and rectify the payment of penalties and interest by the TPA and whether such payments should be reimbursed by the City.

Recommendation 7.

We recommend that the Chief Financial Officer, with the Chief of Staff, Chief Administrative Officer and City Attorney, investigate methods to increase the oversight of the Third Party Administrator for Orlando Fire Department workers' compensation claims.

Response

We concur.

Recommendation 8.

We recommend that, once these oversight methods are determined, the entity responsible investigate all payments of penalties and interest to determine if they were properly handled in accordance with the contract.

Response

We concur.

Continue to Review Risk Management Reserves

During this review, we examined the financial information for the Risk Management Fund for the past five fiscal years (FYE 2003 to FYE 2007). We found that the Net Assets balance in the Risk Management fund has grown from \$6.996M in 2003 to \$19.199M in 2007. The Net Assets of a fund are the difference between the fund Assets and Liabilities and are an indicator of the financial soundness of the fund.

To further analyze the Net Assets balance, we obtained from Finance Department officials the City of Orlando Reserve Policy. This outlines the standards for setting reserve levels for the various City funds. The Reserve Policy notes that the reserves for the Risk Management fund should be, at a minimum, 10% of

the Outstanding Liability for Claims and at a maximum, 15% of the same. We compared the Net Asset balance for the last five fiscal years to the calculated minimum and maximum and learned that the Risk Management fund reserves have been consistently higher than the maximum. At FYE 2007, the Net Asset balance of \$19.199M was well above the calculated reserve maximum of \$5.362M. See Exhibit B for comparison of Net Assets to Reserve Policy amounts for FY03 to FY07.

To mitigate the increase in the Net Assets of the Risk Management Fund, Finance has “rebated” collected Risk Management fees to the General Fund in the last three fiscal years. In FY06-07, this rebate was approximately \$3M. It appears that the Risk Management Fund is being analyzed and managed on an annual basis; however, the fund continues to collect more revenue throughout the year than is necessary for the fund to meet its outstanding obligations.

The Risk Management Fund is classified as an Internal Service Fund. Internal Service Funds are created to serve the needs of the other operating departments of the City. In this case, the fund provides loss prevention and control services, purchases insurance and pays for losses for the City’s self insurance program. The liabilities of the fund are independently determined by the City’s actuary and are a reliable determination of the possible future costs that must be paid by the fund. Currently, the fund maintains revenues (i.e., collections from the other City funds, including the General Fund) at a level significantly higher than its estimated outstanding liabilities.

The Chief Financial Officer has initiated a review of the Reserve Policy, as it was written by a previous management team. The current management team has reported that it is also important for an analysis of the Risk Management fees collected from City departments to also be reviewed to determine that they adequately collect the revenues necessary for the effective operation of the Risk Management Fund.

To continue the effective fiscal operation of the Risk

Management fund, we recommend that the Chief Financial Officer brief the Risk Management Committee annually on the Net Assets of the Risk Management Fund. In addition, the Chief Financial Officer, with appropriate input, should evaluate the Risk Management fee structure to continue efforts to effectively manage the Risk Management Fund Net Asset balance.

Recommendation 9. We recommend that the Chief Financial Officer brief the Risk Management Committee annually on the Net Assets of the Risk Management Fund.

Response We concur.

Recommendation 10. We recommend that the Chief Financial Officer evaluate the Risk Management fee structure to continue efforts to effectively manage the Risk Management Fund Net Asset balance.

Response We concur.

Add Oversight of Vendor Additions to Risk Master Software

During this review, we analyzed the process of controlling the vendors added to the Risk Master system. It is important to control the entry of vendors into the system so that only authorized vendors are eligible to receive payments. We found that the process is solely controlled by one person, the Human Resources Specialist. When an invoice is received from a vendor that is not in the system, the Specialist consults with the Claims Adjusters to verify that the invoice is for an authorized service. He then contacts the vendor and obtains a completed IRS Form W-9, Request for Taxpayer Identification Number and Certification. This form is used to add the vendor into the Risk Master software. However, we found that no approval of this system transaction is performed and, therefore, a control weakness exists where the Specialist can add unauthorized vendors to the system.

As a result, it is possible that vendors could be added to the system without the knowledge or authorization of management. A comprehensive review of this function would enhance

controls and reduce the possible exposure to fraud under the current process.

In order to strengthen internal controls and increase segregation of duties, the Chief Financial Officer should review and revise the Risk Management process for adding vendor information into the Risk Master system.

Recommendation 11. We recommend that the Chief Financial Officer review and revise the Risk Management process for adding vendors to the Risk Master system to strengthen internal controls.

Response We concur.

**Share Claims
Information with
Affected
Managers**

Risk Management does not have an established procedure for communicating information on claim losses to City departments. However, the section summarizes periodically claim information for the Risk Management Committee. In addition, information is shared with two divisions (the Wastewater and the Streets & Stormwater Services Divisions), as a result of requests initiated by the management of those divisions.

In general, management of departments, divisions and programs may not be completely aware that significant losses, recurring losses of the same type, or multiple claims from individual employees exist in their areas of responsibility. Without this information, management cannot act effectively to provide training or take other action to prevent such losses in the future. Efforts to reduce losses could lead to cost savings in each department as the number and cost of claims decreases.

One advantage of having an in-house Risk Management function is the easy accessibility of claim and loss information. In addition, the function has added the City's safety personnel which should help to improve communications of risk issues and develop integrated solutions. Risk Management could enhance its value to the City by regularly providing an analysis

of claims, losses and safety data to City departments, divisions and programs. The affected managers are in the best position to understand links that may exist between certain claims and safety conditions of work areas. Risk Management should share summary claim, loss and safety data with City managements on a regular basis in order to help management isolate what steps could be taken to help prevent accidents and losses in the future.

Recommendation 12.

We recommend that Risk Management collect, analyze, and report claim, loss and safety data to City management to enhance their ability to reduce future losses.

Response

We concur.

**Improve Timely
Receipt of First
Report of
Incident Forms**

City Policy and Procedures for Risk Management require that, for Workers' Compensation claims, a First Report of Incident Form (DWC-1) should be received by Risk Management within two days of the employee receiving medical care. The Policy and Procedure also requires that if the form is not received, Risk Management should contact the department and remind management of the requirement to comply. In five of fifteen Workers' Compensation claims we tested, the DWC-1 form was received more than 4 days after the incident giving rise to the Workers' Compensation claim.

Delays in reporting Workers' Compensation injuries can cause difficulties in accurately determining the cause of the accident, determining the responsible parties and correctly assessing benefits. Claims adjusters need to be notified of the incident as soon as possible in order to most effectively manage the claim and avoid unnecessary additional costs to the City.

We believe that Risk Management should develop a process for more effectively monitoring its receipt of First Report of Incident Forms (DWC-1) to improve compliance with City Policy and Procedures. Some possible actions could be a monitoring process to indicate which divisions and sections are

repeatedly delinquent and inform the related supervisors about their responsibilities related to the Workers' Compensation reporting system.

Recommendation 13. We recommend that Risk Management develop a process for monitoring receipt of First Report of Incident Forms (DWC-1) to improve compliance with City Policy and Procedures.

Response We concur.

EXHIBIT A – SPECIFIC FINDINGS REGARDING THIRD PARTY ADMINISTRATOR CLAIMS AND PAYMENTS

A limited review of available claim and payment information was performed. This limited testing resulted in the following issues, which indicate a need for increased oversight of the Third Party Administrator for Orlando Fire Department workers' compensation claims handling.

- 1) The contract requires that the monitoring schedule, activities, and decisions made on a claim be clearly documented in the claim file. We found that the “notes” function of the claim file was not consistently completed. For example, some claim files had extensive adjustor notes, but the notes were not always detailed, clear, or useful.
- 2) In general, paper files were not in good order and indicated a lack of attention to detail in their preparation and management. For example, documentation to back up payments was lacking as 7 of 34 payments tested (21%) could not be reconciled to invoices or settlement documentation. Another example is the lack of documentation for indemnity payments to injured employees.
- 3) The contract with the TPA requires “medical triage” (i.e., a review of the severity of the injury) on all first reports of injury where an injury requires medical treatment. Of the fifteen claim files reviewed, none were in compliance with this contract provision.
- 4) The contract notes that if penalties and interest are incurred due to the City's actions, the City should bear the cost; if penalties & interest are incurred due to the TPA's actions, the TPA should bear the cost. In our review of claims files where penalties and interest were paid, there was insufficient information to determine which party was responsible for the payment of penalties and interest.
- 5) Claim settlement checks were processed and released to attorneys before the date of the settlement hearing. The documentation for the settlement checks in these instances was an email from the defense attorney.
- 6) Some payments were made after claims files were closed. In 7 out of 15 claims tested, bills were paid between 2 and 8 months after the claim had been closed.
- 7) One payment was made to a physician for an amount above the state-mandated workers' compensation rate. The TPA's Office Manager stated that the healthcare provider used has contractual agreements with some physicians to pay them above the state-mandated rate.

EXHIBIT B - RISK MANAGEMENT FUND NET ASSETS

