AUDIT OF WORKERS’ COMPENSATION

City of West Palm Beach
Internal Auditor’s Office

Audit No. 17-01
May 1, 2017

Roger Strout, City Internal Auditor, CIA, CGAP, CRMA, CFE, CICA
Beverly Mahaso, Deputy Internal Auditor, JD, CFE
Elena Georgiev, Senior Internal Auditor, CPA, CGMA, CIA
Ellen Misita, Senior Internal Auditor
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OVERVIEW

• The Worker’s Compensation (WC) Program is designed to compensate workers who are injured while performing their regular assigned duties and to facilitate the workers’ return to employment at a reasonable cost to the employer.
• The Risk Management Division, part of the Human Resources Department, administers the WC program for the City of West Palm Beach. Meanwhile, the claims are processed by CorVel Healthcare Corporation (CorVel), the City’s Third Party Administrator (TPA). The City is self-insured for the first $500,000 of every claim. If a claim exceeds this amount, Preferred Government Insurance Trust, the City’s insurance carrier specializing in workers’ compensation, covers the difference.
• There were 208 new workers’ compensation claims in FY2016.

SUMMARY FINDINGS

1. First Line Reporting: During the audit, the auditor noted that when an employee is injured, the employee, usually in a joint effort with the supervisor, fills out a "Report of Injury" in Lotus Notes. However, supervisors do not always report injuries timely to Risk Management. When they do, the reports go to the Risk Analyst overseeing the Workers’ Compensation program, who in turn manually enters the data from the report into CareMC, CorVel’s claims management system.

2. Internal Standard Operating Procedures: As part of the Workers’ Compensation audit, it came to our attention that Risk Management’s policies and procedures are outdated and are not representative of its operations.

3. Risk Management’s Reporting Structure: Following the departure of the former Finance Director, the Risk Management Division was transferred from the Finance Department to the Human Resources Department, instead of creating a separate function.

4. Controls Self-Assessment Program: During the planning stage of the audit, the issue of whether or not Risk Management performs a controls self-assessment came up and we were told that it does not (but that it is eager to learn more about it).

SUMMARY RECOMMENDATIONS

1. We recommend that the Risk Management Division works with the IT Department to add the CorVel "report of injury" icon to City computers and adopt this feature afforded by the CorVel agreement. If CorVel no longer provides this particular option, Risk may be able to work with City IT staff to create a different solution, a phone application, for example, which would give supervisors the opportunity to report the injury while waiting with the employee for treatment. Furthermore, this could not only save time for the Risk Analyst, but also will provide peace of mind that claims are entered right away.

2. We recommend that Risk Management update the written policies and procedures about all facets of its operations. Furthermore, these policies and procedures should be periodically reviewed to ensure that they reflect Risk Management’s current practices.

3. The City Administrator should consider realigning the reporting structure for Risk Management so it reports directly to him. Elevating Risk Management to a higher level of reporting in the organization will increase its influence and impact within the organization and help reduce workers’ compensation costs.

4. We recommend that Risk Management staff organize meetings to identify risks, map related controls, and identify gaps between how controls were designed and how controls are actually working.
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May 1, 2017

Audit Committee
City of West Palm Beach
401 Clematis Street
West Palm Beach, Florida

RE: Audit of Workers’ Compensation, Audit 17-01

Dear Audit Committee Members:

Attached is the City of West Palm Beach Internal Auditor’s Office report on Workers’ Compensation. Although the Risk Management Division has done a commendable job implementing controls, additional opportunities for improvement are presented in this report.

We thank the management and staff of the Risk Management Division for their time, information, and cooperation during this audit.

Respectfully submitted,

/s/ Roger Strout
City Internal Auditor

cc: Jeri Muoio, Mayor
    Jeff Green, City Administrator
    Dorrill Miller, Deputy City Administrator
    Mark Parks, Chief Financial Officer
    Jose-Luis Rodriguez, Chief Human Resources Officer
    Kathleen Stakermann, Risk Manager
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Background

The Workers’ Compensation (WC) Program is designed to compensate workers who are injured while performing their regular assigned duties and to facilitate the workers’ return to gainful employment at a reasonable cost to the employer. The State of Florida, Department of Financial Services, Division of Workers’ Compensation oversees the WC program.

The Risk Management Division, part of the Human Resources Department, administers the WC program for the City of West Palm Beach. Meanwhile, the claims are processed by CorVel Healthcare Corporation (CorVel), the City’s Third Party Administrator (TPA). The City is self-insured for the first $500,000 of every claim. If a claim exceeds this amount, Preferred Government Insurance Trust, the City’s insurance carrier (specializing in workers’ compensation), covers the difference.

<table>
<thead>
<tr>
<th>FY</th>
<th># of Carry-Over Claims</th>
<th># of New Claims</th>
<th>Total Expenditures</th>
<th>Average Expenditures per Claim</th>
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<tr>
<td>2016</td>
<td>174</td>
<td>208</td>
<td>$3,064,968.71</td>
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<td>2014</td>
<td>156</td>
<td>166</td>
<td>$2,683,315.17</td>
<td>$8,333.28</td>
</tr>
</tbody>
</table>

Source: Risk Management Division

Accidents are reported on a “Report of Injury” form, which is available in Lotus Notes. It must be completed immediately after an accident resulting in an injury or occupational illness regardless of whether treatment was given. The form is usually a joint effort between the employee and the supervisor. If an employee needs medical care, he/she is accompanied by the supervisor to Coach Comp America (Coach Comp), one of the facilities authorized to treat City employees. If due to the injury the employee cannot be taken to Coach Comp, any other in-network urgent care or emergency room can be used. In general, at this point the employee is asked to provide a sample for drug testing.

Accidents are reported to the TPA as soon as practicable, usually within 24 hours. Any accidents that happen over the weekend are reported on Monday. At this point the adjuster makes a three-point contact (the provider, Risk Management staff, and the employee). Some of the topics discussed include whether or not the employee has received medical treatment, what money the employee may be entitled to receive, etc. After the three-point contact, the adjuster sends an information package to the employee within 3-5 business days. Different employees return the package sooner than others. In the meantime, the doctor/facility, which examined the employee after the injury, sends a medical report to the adjuster, who, with the help of a triage nurse, evaluates the nature and type of the employee’s injury, and directs the employee to the proper level of medical care. After this, the adjuster continues to monitor treatment. Risk Management staff is responsible for reviewing the treatment plans. They can
make recommendations such as location of treatment, timing, etc. They can also reject certain treatment plans if they believe that they are not necessary. In addition, staff acts as a liaison between the employee and the supervisor, keeping the supervisor informed of the progress.

Any medical bills go to CorVel and are paid with City funds. In addition, Risk Management staff is responsible for preparing a wage statement for the adjuster, which includes the employee's wages for the 13 weeks prior to the accident. This is used in calculating indemnity pay (if the employee cannot work for more than seven (7) days).

We recognize the importance of safety training and its role in preventing injuries and the resulting workers' compensation claims. The benefit is dual sided - on one side, it results in monetary savings for the City, on another, it improves morale when employees feel valued and cared for. We also recognize the fact that many of the City's initiatives are new and will require time to produce measurable results, but we are impressed by the vision and dedication of Risk Management's staff. Just as an example, Risk Management was instrumental in deploying City Edge. It is not simply a repository of training records, but it is also a source of classes on a variety of subjects, including safety, which are available to all employees who want to refresh and expand their skills.

Organization Chart

Risk Management Division

- Risk Manager
- Safety Officer
- Secretary
- Risk Management Analyst
- Risk Management Analyst
- EHS Technician

Source: Risk Management Division
Statement of Scope
The audit period was October 1, 2015 through September 30, 2016. However, based on the work performed during the preliminary survey and the assessments of risk, the audit period varied depending on the audit objective. The audit included examinations of procedures, controls, transactions and records associated with the Workers' Compensation program.

Statement of Methodology
We utilized several audit methodologies to achieve the objectives. These evidence-gathering techniques included, but were not limited to:

- Reviewing applicable local, state and federal regulatory requirements;
- Interviewing Risk Management employees;
- Performing walk-throughs, and observing processes;
- Examining the internal control systems and identifying any material weaknesses; and
- Other audit procedures determined necessary.

Statement of Auditing Standards
We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Statement of Objectives
The objectives of this audit were to determine whether:

- The City is assessing and mitigating risk across departments, and
- Workers’ compensation claims are managed in compliance with all workers’ compensation laws and regulations.

In addition, we evaluated the internal controls in place over these processes.
Audit Conclusions and Summary of Findings

Based upon our interviews, analytics, and testing, we concluded that opportunities exist for the Risk Management Division to improve the injuries reporting process.

**Noteworthy Accomplishments**

We found knowledgeable and dedicated employees that were not only receptive to our recommendations for improvement, but also eager to find the most efficient solutions.

In addition, we would like to point out a few of Risk Management's accomplishments:

- Created an on-call list distributed to Police Dispatch and others that may need to call Risk after hours and on weekends;
- Commenced safety inspections of City-owned properties used by either employees or the public. These resulted in audit reports with recommendations and follow ups;
- Commenced weekly staff meetings to recap objectives, discuss strategies, and monitor progress;
- Instituted a requirement that all vendors encrypt any confidential attachments (HIPAA), etc.

Most importantly, recently the Risk Manager identified the need of a Cyber Security insurance policy. She worked in consort with the IT Department to complete the application and procure an insurance that will give peace of mind to many City employees and management.
Opportunities for Improvement

1) First Line Reporting

Condition
During the audit, the auditor noted that when an employee is injured, the employee must inform his/her supervisor, who is then responsible for accompanying the employee for treatment. In addition to that, the supervisor, usually in a joint effort with the employee, fills out a "Report of Injury" in Lotus Notes. This is where there is a disconnect - supervisors do not always report injuries timely to Risk Management. When they do, the reports go to the Risk Analyst overseeing the Workers' Compensation program, who in turn manually enters the data from the report in CareMC, CorVel's claims management system.

Criteria
According to the 2011 Agreement between the City and CorVel, the latter was to provide web-based (internet or intranet) access for workers' compensation and liability claims filing, along with the ability to manually file a claim. Icons or other easily recognizable links or short-cuts were to be provided on every City computer. This language is included again in the renewed agreement between City and CorVel. This was meant to make it easier for employees and their supervisors to report claims without involving the Risk Analyst.

Cause
We discovered that CorVel discontinued its support of the web-based access due to lack of interest.

Effect
The lack of automation may contribute to late filing of the "Report of Injury" with Risk Management or may result in duplication of effort and loss of efficiency for Risk Management staff.

Recommendation 1
We recommend that the Risk Management Division works with the IT Department to add the CorVel “report of injury” icon to City computers and adopt this feature afforded by the CorVel agreement. If CorVel no longer provides this particular option, Risk may be able to work with City IT staff on creating a different solution, a phone application, for example, which would give supervisors the opportunity to report the injury while waiting with the employee for treatment. Furthermore, this could not only save time for the Risk Analyst, but could also provide peace of mind that claims are entered right away.

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Management Response

Regarding this recommendation, we agree it would be beneficial to Risk and our internal customers and has the possibility of reducing our workload and expediting state-required reporting. A formal request has been made to the City’s IT department for assistance. Although we cannot estimate the availability of IT resources, we anticipate having this implemented within the next twelve months.

Target Implementation Date

May 31, 2018

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2) Internal Standard Operating Procedures

Condition
As part of the Workers' Compensation audit, it came to our attention that Risk Management's policies and procedures documentation needs to be updated as they are not always representative of its operations. In addition, we noted that the language of some of the documents meant to provide guidance to employees, such as the Employee Handbook and the Workers' Compensation policy, are inconsistent.

Criteria
Best practices indicate and most companies agree that policies and procedures play an important role in the success of any organization. As the Pacific Crest Group, a management consultant group, state, policies and procedures are the strategic link between an organization's vision and its day-to-day operations. On one hand, they allow management to guide operations without constant intervention. On the other, they empower employees to effectively carry out their responsibilities within predetermined limits.

Cause
Risk Management's staff members have devoted their attention to completing everyday tasks.

Effect
In the absence of updated standard operating procedures, employees may not be aware of the rules and when these rules apply. Thus, the consistency in day-to-day operations may be lost, not to mention the non-performance of critical tasks. This in turn may require intervention on behalf of management, which translates into increased operating expenses. More importantly, in the case of Risk Management, as employees move up in an organization, or leave, institutional knowledge maybe lost.

Recommendation 2
We recommend that Risk Management updates the written policies and procedures about all facets of its operations. Furthermore, these policies and procedures should be periodically reviewed to ensure that they reflect Risk Management's current practices. We recommend that given the current staffing levels of the Division, the Risk Manager employ the services of a consultant, experienced in the risk management and compensation arena, to assist her and her staff in updating their policies and procedures.

Management Response
The recommendation for updating our written policies and procedures will be implemented as time permits. We will put all of our policies and procedures into our work queue to update beginning June 1, 2017.
Target Implementation Date
May 31, 2018

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3) Risk Management’s Reporting Structure

Condition
Following the departure of the former Finance Director, the Risk Management Division was transferred from the Finance Department to the Human Resources Department, instead of creating a separate function.

Criteria
Back in 2011, McKinsey and Company, a leading global management consulting firm, wrote a report on Risk Management in the US Public Sector. Their message was clear, Risk Management is undoubtedly an overlooked player on the government stage. One of several interconnected recommendations was to establish an independent Risk Management department. This is supported by a number of other organizations as well.

Cause
Risk Management, and the City as a whole, has experienced a significant turnover in the past several years. This has made it challenging to acquire a leader familiar with the intricacies of government and the risk trade-offs involved in making critical decisions. This resulted in moving the Risk Management Division.

Effect
The inclusion of Risk Management as a division under Human Resources, or Finance, increases the risk that it may not consistently have the ear of the City’s top leadership and its message may be diminished when communicated to operating divisions’ leadership.

Recommendation 3
The City Administrator should consider realigning the reporting structure for Risk Management so it reports directly to him. Risk Management’s staff has a clear understanding of the risks facing the City and its operating divisions, and the costs associated with such risks, and could be the perfect strategic partner to the Administration as well as to individual departments. Elevating Risk Management to a higher level of reporting in the organization will increase its influence and impact within the organization. This is consistent with the increased role Risk Management is playing in the corporate world as Chief Risk Officer.

Management Response
We agree to consider realigning the reporting structure for Risk Management so it reports directly to the City Administrator. However, we are not planning to change the Risk Management reporting structure at this time. We will re-evaluate the Risk Management reporting structure in the future.
Target Implementation Date
May 31, 2018

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4) Controls Self-Assessment Program

Condition
During the planning stage of the audit, the auditor discussed several internal control issues with the Risk Manager. One of these issues was whether or not Risk Management has a controls self-assessment program in place. We were told that there is not one since it is not a common practice (but the Risk Manager was eager to learn more about it).

Criteria
Many organizations often use the phrase “It could not happen here” or “It could not happen to us” when referring to fraud. Unfortunately, with the rapid developments in technology and extended periods of economic difficulties, just to name a few factors, the risks of fraud increase. According to the AICPA, IIA, and ACFE, which recently published a guide titled “Managing the Business Risk of Fraud: A Practical Guide”, management is responsible for the design and implementation of a controls self-assessment program. In other words, management should take a close look at its operation and assess its risks, and ensure that these are properly addressed through adequate internal controls.

Cause
Implementation of a controls self-assessment program has become a common best practice and should be implemented.

Effect
As mentioned above, in today’s ever changing business environment, employees and customers alike are faced with increasing organizational and personal pressures, and could be tempted to commit fraud. According to the 2016 Report to the Nations on Occupational Fraud and Abuse, a publication issued every 2 years by the ACFE, a typical organization loses five (5) percent of annual revenues to fraud.

Recommendation 4
The controls self-assessment program should be the responsibility of all. Thus, we recommend that Risk Management staff members organize meetings to identify risks, map related controls, and identify gaps between how controls are working and how controls are expected to work. We want to emphasize the involvement of staff since no one knows the processes better than the people who perform them on a daily basis. Internal Audit would be pleased to offer technical assistance, if needed, going forward.

Management Response
Regarding this recommendation, we look forward to your guidance in the implementation of a more comprehensive and formalized self-assessment program.
Target Implementation Date

May 31, 2018

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