

**HUMAN RESOURCES DEPARTMENT
RISK MANAGEMENT DIVISION
WORKERS' COMPENSATION
AUDIT 19-20
FEBRUARY 18, 2020**



CITY OF TAMPA

Jane Castor, Mayor

Internal Audit Department

Christine Glover, Internal Audit Director

February 18, 2020

Honorable Jane Castor
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Workers' Compensation, Audit 19-20

Dear Mayor Castor:

Attached is the Internal Audit Department's report on Workers' Compensation.

The Risk Management Division of Human Resources has already taken positive actions in response to our recommendation. We thank the management and staff of Risk for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover
Internal Audit Director

cc: John Bennett, Chief of Staff
Dennis Rogero, Chief Financial Officer
Kelly Austin, Director of Human Resources
Valerie Horton Rakes, Risk Manager

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/s/ Vivian N Walker

Auditor

/s/ Christine Glover

Audit Director

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BACKGROUND

Commercial Risk Management (CRM) – a third party administrator – administers the City of Tampa's (City) workers' compensation program. The Risk Management Division (Risk) oversees the contract with CRM. CRM is responsible for all medical and lost time payments and coordination of medical benefits for any employee injured while performing assigned duties for the City. CRM is also responsible for filing the required forms with the State of Florida. As of September 30, 2019, there were more than 560 open claims (since 1960) with reserves of more than \$25M.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY2019 Audit Agenda. The objectives of this audit were to ensure that:

1. The system of internal controls related to segregation of duties for invoice approval and payment was adequate.
2. Payments to CRM for replenishing the imprest fund were properly supported by CRM and approved by Risk.
3. CRM subrogated claims when applicable.
4. CRM complied with the requirements of the City's contract and criteria reviewed during audits by the State of Florida's Division of Workers' Compensation.
5. Employees were notified of insurance for workers' compensation.

STATEMENT OF SCOPE

The audit period covered workers' compensation activity that occurred from October 1, 2017, through September 30, 2019. Tests were performed to determine whether CRM is fulfilling their stated duties and responsibilities in an effective and efficient manner. Original records as well as copies were used as evidence and verified through observation and physical examination.

STATEMENT OF METHODOLOGY

CRM has internally developed software that stores and processes information. The system also electronically transmits all information required by the State of Florida. The software is proprietary, which resulted in no data reliability testing. Therefore, no opinion is being made as to the reliability of the data.

The objectives for this audit were accomplished by the following:

- Reviewing sampled claim files in the CRM software for supporting documentation of payments and timely filing of forms with the State of Florida's Division of Workers' Compensation.
- Visiting City office locations for workers' compensation posters.
- Discussing elements of the contract with CRM and Risk.

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

AUDIT CONCLUSIONS

Based upon the test work performed and the audit finding noted below, we conclude that:

1. The system of internal controls related to segregation of duties for invoice approval and payment is adequate.
2. Payments to CRM for replenishing the imprest fund are properly supported by CRM and approved by Risk. However, the review process by the City can be enhanced to ensure invoices are properly supported before payment is remitted to CRM.
3. CRM subrogates claims when applicable.
4. CRM complies with the requirements of the contract and specific criteria reviewed during audits from the State of Florida's Division of Workers' Compensation.
5. Employees are notified of insurance for workers' compensation.

IMPREST ACCOUNT

STATEMENT OF CONDITION: CRM uses an imprest account that is funded by the City to pay all workers' compensation claims. Monthly, CRM submits a loss run report that details payments from the bank account attached to an invoice, which is the request to replenish the imprest account to its "original balance."

Risk does not review the loss run report or any other documentation in a level of detail to ensure accuracy of the amount being requested by CRM. Risk indicated there is regular communication with CRM of the larger more prominent items, but no routine documented review.

A discussion with the Accounts Payable (AP) and the Banking sections of Revenue and Finance disclosed that the check payable to CRM for replenishing the imprest account is submitted by AP to Banking. Banking prepares the deposit slip for CRM's bank account and places the documentation in the drop box for pickup by the City's bank courier to transport to the bank.

CRITERIA: Prudent business practices would encourage an independent verification of data provided to support invoicing before payment. Also, per the January 2020 AP Policy, "all checks must be mailed directly to the vendor. If there is a vendor emergency, and the check must be picked up in person, the request must be made in writing or email by the department to the Chief Accountant."

CAUSE: Currently, Risk does not have an employee dedicated to monitor workers' compensation activity. Additionally, the reason for the historical practice of the Banking section preparing the deposit slip for CRM could not be explained by anyone in the current Management for the Risk or Banking Divisions.

EFFECT OF CONDITION: Potential for overpayment to the TPA for claims already reimbursed or invalid. Also, preparing the deposit slip and including the deposit for the TPA with the City's daily deposits both creates an exception to the current AP policy and creates an inefficient process by generating an extra cost (deposit slips and Accounting Technicians time) to the contract.

RECOMMENDATION: Risk should develop a process that would include a periodic review in detail of documentation to support payments made on the City's behalf and for which reimbursement is requested. This review should be random and at a minimum document the claims and specific documentation reviewed.

CRM should be consulted on whether or not remittal by check is acceptable or if a more expeditious method is required. If payment by check is still acceptable, AP should follow their normal process for remittal of payables and mail the check to CRM or, if required, obtain approval from the Chief Accountant for pickup. If payment by check will not be expeditious enough, the preferred method of payment needs to be established.

MANAGEMENT RESPONSE (RISK): Agreed: Specific actions are as follows:

Imprest Account/Banking relationship: Risk Management will perform an assessment, in conjunction with City of Tampa Revenue and Finance, of the existing banking relationship in comparison to other available options with emphasis on security, account management and efficiency for the funding of the workers' compensation program.

At the conclusion of the assessment, Risk Management will coordinate the implementation of any changes with the TPA and City Revenue and Finance-Banking Division within a timeline to be determined by the level and complexity of the identified changes.

Imprest Account Reconciliation: Risk Management will establish protocols with the TPA to receive formal bank reconciliation reports for the City of Tampa account each month in a time and manner to allow for review and verification prior to the approval of funding for the monthly replenishment of the Imprest account.

TARGET IMPLEMENTATION DATE (RISK): Implementation date for all actions is August 31, 2020.

MANAGEMENT RESPONSE (REVENUE AND FINANCE):

No response received.

TARGET IMPLEMENTATION DATE (REVENUE AND FINANCE):

No response received.