

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DIVISION
RISK MANAGEMENT DIVISION
AUDIT REPORT

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MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DIVISION
RISK MANAGEMENT DIVISION

AUDIT REPORT

A financial, compliance, and operational audit of Manatee County's Risk Management Division was conducted by the Internal Audit Division for the audit period October 1, 1995 through December 31, 1996 . The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards*,

issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

BACKGROUND:

The self-insurance program was established for providing a system through which Manatee County retains certain risks and manages the claims that emanate from public liability incidents and the legal obligations imposed as the result of injury to employees. Manatee County has assumed responsibility for claims of the County's Workers' Compensation, General Liability, Vehicle Fleet, Property Damage, Personal Injury and other insurance claims, included within the coverage areas set forth in Ordinance 92-23. A Self-Insurance Fund was created for paying all legitimate claims and expenses that arise under the program and come within the applicable coverage terms.

The County Attorney's Office Risk Management Division is an internal service fund. Expenses are recovered from participating departments and agencies based on actuarial estimates and past claims experiences of the amounts needed to pay prior and current years claims. Participating departments and agencies include all departments under the Board of County Commissioners, the Clerk of the Circuit Court, the Sheriff's Office, the Property Appraiser's Office, the Tax Collector's Office, and the Supervisor of Elections' Office.

In addition, the Risk Management Division is also responsible for the following:

- Negotiating the purchase of excess property insurance for all of the county's physical and real property.
- Supervising the functions of the County's third-party claims administrators as well as preparing and forwarding claims to the claims servicing company.
- Processing and settling auto and general liability claims in-house.
- Administering the County's Safety Program.

PURPOSE/OBJECTIVE:

The main audit objectives include, but are not limited to, the following:

- To verify accuracy and input timeliness of financial data, and reports processed and received by the Risk Management Division.
- To verify an adequate system of internal control exists to safeguard assets, maintain the integrity of reports on operations, and provide adequate evaluation of the Risk Management Division's objectives and responsibilities.
- To verify compliance with significant laws and regulations, including Florida Statutes, federal regulations, ordinances, resolutions, policies, and signed agreements or contracts related to the Risk Management Division.
- To evaluate operational efficiency and effectiveness.

SCOPE:

The financial audit scope consisted of a review of accounts, financial transactions, and reports of the Risk Management Division for the period October 1, 1995 through December 31, 1996 .

The compliance audit scope consisted of a review of the policies and procedures, Florida Statutes, federal regulations, ordinances, resolutions, contracts, administrative orders and agreements related to the Risk Management Division for the period July 1, 1995 through December 31, 1996.

The operational audit scope consisted of a review of the Risk Management Division's internal controls and the effectiveness and efficiency of the operation during the audit period January 1, 1996 through December 31, 1996. Management controls were also reviewed to identify significant weaknesses that may have contributed to deficient performance.

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METHODOLOGY:

Internal control evaluations were accomplished by flow charting key operations, discussions with management and staff, observations, and analytical and substantive testing of individual internal controls.

Risk analysis was used to establish priorities of audit objectives. Statistical sampling was used whenever appropriate to accomplish audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered during the audit that could affect the Risk Management Division for the audit period ended December 31, 1996 .

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls, and assessed control risk. Tests performed appeared to provide sufficient evidence to support an opinion on compliance and internal controls.

Except as noted in our audit report, tested items were in compliance with significant laws, regulations, and internal controls that included Florida Statutes, ordinances, resolutions, personnel policies, administrative orders, and other policies established by the Risk Management Division and other applicable laws and regulations.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing our audit of the Risk Management Division for the period October 1, 1995 through December 31, 1996 we considered its internal control structure in order to determine our auditing procedures for the purpose of our report on the Risk Management Division. As a result, we noted in the audit report any significant matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the U.S. General Accounting Office, *Government Auditing Standards*. Reportable conditions involve matters relating to significant deficiencies

in the design or operation of the internal control structure, that in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with the intent of management.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, significant deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report constitute reportable conditions as previously defined.

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MANAGEMENT SUMMARY:

Internal Audit reviewed the operations of the Risk Management Division. Based on our review, the operations of the self-insurance program appear to be meeting the needs of Manatee County. The Risk Management Division manages Manatee County's self-insurance, commercial insurance, workers' compensation and risk management functions. In our opinion the Risk Management Division is staffed by professional individuals who are extremely knowledgeable in insurance industry practices. The Risk Management Division has an innovative staff that continues to improve services being offered to Manatee County and is continuously searching for ways to reduce the cost of the self-insurance program. We commend the Risk Management Division for a job well done in the complex, changing business of the insurance industry.

Our audit found few areas of operations that require improvement. One of these areas is the updating of Ordinance 92-23, that defines the County's self-insurance program. Ordinance 92-23 is outdated and is not consistent with the current operations of the Risk Management Division. Although the ordinance included the establishment of a Claims Review Committee to change the self-insurance program's coverage, this Committee was not established. In addition, the ordinance incorporated commercial insurance policies that are confusing and were not designed for a governmental self-insurance program. In this report, we recommend that management re-write Ordinance 92-23 or establish a Claims Review Committee so that changes to the current ordinance can be made to bring the ordinance in-line with current operations and better reflect the needs of Manatee County. (See Detailed Audit Finding #1, at Page 7-8)

Internal Audit also found that Risk Management is not always complying with the guidelines for the Workplace Safety Committee established by Resolution 94-236. In this report we recommend the Risk Management Division either comply with or amend Resolution 92-236 to reflect the current operations of the Workplace Safety Committee. (See Detailed Audit Finding #2, at Page #9)

Internal Audit reviewed Manatee County's workers' compensation program and found generally effective controls over the payment of medical expenses for workers' compensation claims. We did find, however, controls over calculation of payment to employees for work time lost were not adequate, which resulted in overpayment of \$2,322 to injured workers. This amount of overpayment is minor, representing less than .5% of total claims paid during the period reviewed. In this report we recommend Risk Management incorporate procedures that will eliminate the type of overpayment to employees that was discovered in this audit. In addition, we recommend that

Risk Management pursue collecting the amount of overpayment from the employees. (See Detailed Audit Finding #3, at Page #10)

AUDIT REPORT AUTHORIZATION:

Other minor findings, not included in this report, have been communicated with management or corrected during the audit. We would like to thank the Risk Management Division's personnel and management for the cooperation and courtesy afforded to our auditors throughout the audit.

This audit report has been reviewed and authorized by :

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Richard J. Orienti, CIA, CFE R. B. "Chips" Shore

Director of Internal Audit Clerk of the Circuit Court

DETAILED AUDIT FINDINGS

Ordinance 92-23 defines Manatee County's self-insurance program and provides for program coverage and reporting requirements. The self-insurance program is an internal service fund operated by the Risk Management Division and supported by departmental user fees. The ordinance also provides for the creation of a Claims Review Committee, whose functions include but are not limited to making recommendations to the Board of County Commissioners regarding changes to coverage included in the self-insurance program.

Internal Audit found that Risk Management is not complying with some of the specific program coverage authorized in Ordinance 92-23 and has not established a Claims Review Committee. In addition, Risk Management operations are not always consistent with Ordinance 92-23. Examples of inconsistencies include but are not limited to:

1. Ordinance 92-23 incorporated standard commercial insurance policies for Workers Compensation, Auto, General Liability, Public Official Liability, and Ambulance Drivers and Attendants Malpractice. These policies are outdated, confusing and coverage may be questionable. Specific inconsistencies include:

a. The workers' compensation policy contains language that is not consistent with current workers' compensation law.

b. The auto policy includes collision coverage for total loss vehicles for which Risk Management's internal service fund is not paying. The replacement of these vehicles is paid out of the operating budgets of the at-fault departments. Therefore, when Risk Management reports on claims paid under the auto policy, the report does not include collision on

total loss vehicles which normally represents a significant part of an auto insurance expense.

c. The ambulance drivers and attendants malpractice policy does not appear to be required, since coverage seems redundant of the general liability provision.

DETAILED AUDIT FINDINGS - Continued

2. Risk Management is not preparing annual performance reports to the Board of County Commissioners on the status of the Self-Insurance Program. The annual report prepared by the County Attorney's Office does include a section on the Risk Management Division. However, the information included does not satisfy the specific reporting requirements included in Ordinance 92-23.

Internal Audit recommends that management re-write Ordinance 92-23 or establish a Claims Review Committee so that changes to the current ordinance can be made to bring the ordinance in line with current operations and better reflect the needs of Manatee County.

DETAILED AUDIT FINDINGS

Resolution 94-236 provides for the adoption of guidelines for creating a Workplace Safety Committee consistent with the state workers' compensation law. Internal Audit reviewed the details of this resolution and found the following inconsistencies:

1. The resolution requires the Risk Management Division to be responsible for continuously monitoring and evaluating the effectiveness of the County's loss control and safety programs and recommending changes to the Workplace Safety Committee as necessary. The resolution also requires the Risk Management Division to be responsible for analyzing monthly workers' compensation and auto and general liability loss experience claims reports in order to make recommendations to the Workplace Safety Committee for loss reduction actions. Management states that these functions are performed by Risk Management but recommendations are not formally made to the Workplace Safety Committee. Risk Management feels that these may be procedures that the Workplace Safety Committee may want to work toward.

2. The resolution requires the Risk Management Division to be responsible for preparing and distributing minutes of the Workplace Safety Committee meeting to the County Administrator, Department and Office Managers, and the Committee members. Internal Audit found Workplace Safety Committee minutes are not distributed to the County Administrator, Department or Office Managers.

3. Drivers license records are not reviewed by the Workplace Safety Committee on a periodic basis as required by the resolution.

Internal Audit recommends The Risk Management Division either comply with or amend Resolution 94-236 to reflect the current operations of the Workplace Safety Committee.

DETAILED AUDIT FINDINGS

Workers' Compensation pays medical expenses and reimburses employees for lost work time due to injuries occurring on the job. Internal Audit found generally effective controls over the payment of medical expenses for workers' compensation claims. Internal Audit, however, found that controls over calculation of payment to employees for work time lost could be improved. Compensation of employees for lost work time on workers' compensation claims involves comparisons of doctors recommendations, reviewing of employees time cards, and compliance with Florida Statute Chapter 440. Internal Audit recalculated the amounts paid for twelve (12) Board of County Commissioners' employees workers' compensation cases during the period October 1, 1994 through July 31, 1996.

Eight (8) out twelve (12) or 67% of the employees were overpaid during the period of disability. Total amount of overpayment amounted to \$2,322. This amount of overpayment represented less than .5% of total claims paid during the period reviewed.

Internal Audit found that time cards are not reviewed by Risk Management to verify when the employee returns back to work from a workers' compensation injury. Without the review of the time card, information can be improperly communicated between Risk Management, Department Supervisors and the third party administrator resulting in an injured employee being paid incorrect amounts.

Internal Audit recommends that Risk Management incorporate procedures that would allow for the reconciliation of time cards of those employees out of work due to a workers' compensation injury. In addition, we recommend that Risk Management pursue collecting the amount of overpayment from the employees.

MANAGEMENT'S RESPONSE

March 25, 1997

MEMORANDUM

TO: R. B. Shore, Clerk of the Circuit Court

FROM: H. Hamilton Rice, Jr., County Attorney

RE: Draft Report of Risk Management Division Audit

- A. I have reviewed your draft report and discussed it with our Risk Management staff. We wish to thank your auditors for their fine work and congratulate them on their keen insight on how we can improve some of our procedures. We thought Risk Management was running well; but now we know of ways we can make our performance even better.
- B. As to your three "Detailed Audit Findings," please consider the following:
 1. I concur wholeheartedly in Detailed Audit Finding #1. We told your auditors from the beginning that the ordinance had to be rewritten. We detailed for them what we saw was wrong or outdated in the current ordinance. Unfortunately, the day-to-day press of business has prevented us from devoting the time and manpower necessary for proper completion of so major a project. As soon as I see an opportunity, I will divert the necessary attorney and support resources to a complete rewrite of the ordinance. The rewrite will incorporate your observations and suggestions.

The Claims Review Committee concept is an anachronism. It was incorporated into the original 1986 Self-Insurance Ordinance at a time when Risk Management was not assigned to the County Attorney's Office. The Senior Assistant County Attorney for Risk Management now fulfills the original purpose of the Committee by assuring legal and litigation considerations are addressed from the claims process. We do not intend to include a such committee in the ordinance rewrite.

R. B. Shore

Clerk of the Circuit Court

March 25, 1997

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2. I concur in part with Detailed Audit Findings #2.

Resolution R-94-236 was intended to fulfill the requirements imposed by the Legislature in Chapter 442, Florida Statutes. The Workplace Safety Committee was an experiment, designed to evolve as the participating County departments and our Risk Management Division learned how the Committee could best serve the needs of the County.

The Workplace Safety Committee, as now constituted, outgrew the Resolution that created it. Its successes and rapid evolution outpaced changes to the verbiage in the Resolution.

With the recent addition of our new Safety Training Officer, we have been able to start analyzing incidents and claims and to present that information to the Committee through the Risk Manager. However, at your suggestion, we will formalize this process with monthly reports and

recommendations to the Committee, and then sent minutes to the Administrator and departments.

Also, at your suggestion, we will establish a formal system of drivers' license reviews, on both a random and accident-specific basis, to supplement the initial employment and incident checks we now perform.

We will also establish a review process to ensure the language of the Resolution keeps pace with future evolutionary changes in the Committee and its work.

3. I concur with Detailed Audit Finding #3 that we overpaid eight individual employees a total of \$2,322.02 during the 22 months period in question. In that same time period, Risk Management paid out \$551,867.00 in workers' compensation benefits.

The reason for the overpayments is primarily input errors on time cards, either by the individual employees or the departments. Your auditors suggest Risk Management review timecards of employees receiving lost-time workers' compensation benefits and cross-reference that data against our comp pay-out logs. Frankly, no one had thought of that before. The idea will probably not eliminate all overpayment errors, but it will allow us to recoup erroneous payments more quickly.

In that regard, we have been in contact with Payroll on beginning recoupment efforts on the eight individuals you identified. Due to the statutes, we cannot recover on the workers' compensation side. But, the overpayment also included salary, which we should be able to get back. Unfortunately, the single largest amount (906.00) went to an individual who quit County employment, \$166.14 went to another employee who is not retired, and \$129.84 went to someone now on disability leave.

R. B. Shore

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- A. Overall, I am very pleased with your draft report. It confirms that our Risk Management Division is providing high quality service to the Board of County Commissioners and is safeguarding the taxpayers' resources.

Again, I wish to thank your Internal Audit Division, especially Millie Diaz-Blevins, for their kind attention and guidance. We will continue to consult with you as needed during the planned revisions to the Self Insurance Ordinance.

HHR/klm

Cc: Richard Orienti

Millie Diaz-Blevins