INTERNAL AUDIT DEPARTMENT

AUDIT REPORT

COUNTY ATTORNEY’S OFFICE
RISK MANAGEMENT DIVISION
WORKERS’ COMPENSATION
PAYROLL REPORTING AUDIT

AS OF AUGUST 31, 2008
MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

COUNTY ATTORNEY'S OFFICE RISK MANAGEMENT DIVISION
WORKERS' COMPENSATION – PAYROLL REPORTING AUDIT

AUDIT REPORT

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AUDIT REPORT

The Internal Audit Department conducted an audit of the Workers' Compensation Payroll Reports compiled by the Risk Management Division for the audit period September 1, 2003 through August 31, 2008. 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 Risk Management Division is under the County Attorney's Office and is responsible for managing the County's self insurance program that includes workers' compensation. This workers' compensation program covers the Board of County Commissioners (excluding the Port Authority), the Sheriff's Office, the Clerk of the Circuit Court, the Supervisor of Elections Office, the Property Appraiser's Office, the Tax Collector Office, and the Metropolitan Planning Organization. Risk Management is responsible for reporting payroll data to the State's Division of Workers' Compensation pursuant to Section 440.38, Florida Statutes, and Rule 69L-5, Florida Administrative Code. This information is used by the State for the purpose of calculating the County's assessments to the Workers' Compensation Administrative Trust Fund and the Special Disability Trust Fund.

In 2008, the Risk Management Division learned that the payroll information submitted to the State had been inaccurate, resulting from errors in a computer program used to compile and report on the County's payroll. The computer program did not capture all employees that were employed during the reporting period and the report did not cover a complete twelve month period. Since that time, Risk Management has worked with County programmers to correct any program deficiencies and has run new reports for the last reporting period ending August 31, 2008 as well as for the preceding four years. These updated reports have been submitted to the State's Division of Workers' Compensation and the State has assessed Manatee County for the difference resulting from the under-reporting of the payroll.

The Risk Management Division wanted assurance that the latest reports submitted to the State were accurate. As a result, in December 2008, the Risk Management Division requested assistance from the Internal Audit Department to ensure the reports' accuracy.
PURPOSE/OBJECTIVES:

The main audit purpose/objectives included, but were not limited to, the following:

➢ For the latest 5 years of payroll reports submitted to the State, determine whether the payroll codes, used in compiling the State's workers' compensation reports, are accurate in compliance with State law, are complete for all employees paid, and cover the proper reporting period.

➢ Determine whether the procedures followed by the Risk Management Division are adequate to ensure the payroll codes used by the various Constitutional Officers for workers' compensation reporting are accurate.

SCOPE:

The scope of the audit included examining the latest five years of payroll reports submitted to the State of Florida Division of Workers' Compensation for the reporting period ending August 31, 2008. The audit concentrated on testing payroll codes used to compile the payroll reporting information, also referred to as remuneration. We did not test the assignment of classification codes, a four-digit number assigned to a specific type of job based on risk of injury.

METHODOLOGY:

Internal control evaluations were accomplished by reviewing key operations of this specified area through 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.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered for the five year period ending August 31, 2008 in audit of Risk Management Workers' Compensation Payroll Reporting.

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls and assessed control risk. Tests performed were limited to the specific areas included in the Purpose/Objective section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested. Except as noted in our audit report, tested items were in compliance with State laws and other policies established by the Risk Management Workers' Compensation section.
STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the Risk Management Workers' Compensation Payroll Reporting Audit for the five years ending August 31, 2008, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. As a result, we noted in the audit report matters involving the internal control structure and its operations that are considered reportable conditions under standards established by the U.S. General Accountability Office, Government Auditing Standards. Reportable conditions involve matters relating to 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 management's intentions.

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, due to the inherent limitations in any internal control structure, 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 may constitute reportable conditions as previously defined.

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan will be given for each Area for Improvement. Management Action Plans are corrective actions with implementation dates developed in cooperation with the County Attorney's Office's management team and the Internal Audit Department. The management team included Jim Minix, Chief Assistant County Attorney; James Cooney, Assistant County Attorney; Mike Terrell, Risk Manager; and Linda Klasing, Claims Adjuster.

MANAGEMENT SUMMARY:

The Risk Management's Workers' Compensation Section has many responsibilities including the reporting of payroll information to the State of Florida Division of Workers' Compensation for the purpose of calculating the County's assessments to the Workers' Compensation Administrative Trust Fund and the Special Disability Trust Fund. When Risk Management realized that there existed a problem with the payroll reports submitted to the State, they quickly corrected the information and submitted adjusted reports. In an effort to ensure the accuracy of the adjusted reports submitted to the State, Risk Management requested an audit of those reports excluding the classification code assignments. We commend Risk Management for their proactive audit initiative to ensure complete and accurate reporting.

Workers Compensation payroll information reported to the State for the purpose of calculating the County's assessments is not the same as the actual payroll paid. Instead, certain payroll codes are included and/or excluded from workers' compensation gross wages, and overtime is calculated on straight time, a process referred to as remuneration. Testing of the latest five years of reports found inconsistencies in the use of payroll codes that resulted in an under-reporting of workers' compensation payroll of approximately $12,850,000. The financial impact
MANAGEMENT SUMMARY: Continued

of this under-reporting appears to be approximately $57,800 in assessments not paid for the five year period ending August 31, 2008. This under-reporting of workers' compensation payroll resulted from staff not being aware of the remuneration requirements for the reporting of workers' compensation payroll. Risk Management's role has been limited to compiling reports received from the Constitutional Officers without verifying whether the information included those reports were accurate and consistent with the remuneration requirements. Management through its Management Action Plan has obtained a subscription service to educate and train the Constitutional Officers on remuneration and other workers' compensation rules. Management will also work with the State of Florida Division of Workers' Compensation on settling any monies due as a result of the under-reporting of workers' compensation payroll.  

(See Area for Improvement #1 at page 5.)

Risk Management has not developed a written policies and procedures manual that reflect current reporting responsibilities, guidelines, and procedures. The audit identified several specific areas that should be addressed in the development of a policies and procedures manual. Management through its Management Action Plan is in the process of developing a policies and procedures manual that will incorporate the reporting requirements of the workers' compensation program as well as the procedures that will be followed to ensure compliance with reporting requirements.  

(See Area for Improvement #2 at page 6.)

The findings listed in this report were discussed with the Management Team members. Other minor findings noted during the audit were discussed and/or corrected during the audit, and were not included in this report. We would like to thank the Risk Management Section management and staff for the cooperation and courtesy afforded to our auditors throughout the audit. We appreciate the efforts and timeliness in addressing the issues raised during the audit and aggressively seeking solutions to these matters. We look forward to the continued effort on monitoring controls and maintaining accountability over their reporting responsibilities.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:

Millie Diaz-Blevins, CPA
Director of Internal Audit

R. B. "Chips" Shore
Clerk of the Circuit Court & Comptroller
Risk Management is responsible for reporting payroll data to the State's Division of Workers' Compensation pursuant to Section 440.38, Florida Statutes, and Rule 69L-5, Florida Administrative Code. This information is used by the State for the purpose of calculating the County's assessments to the Workers' Compensation Administrative Trust Fund and the Special Disability Trust Fund. The workers' compensation payroll data is not the same as the actual payroll paid. Instead, certain payroll codes are included and/or excluded from workers' compensation gross wages, and overtime is calculated on straight time. This process is referred to as remuneration. NCCI, National Council on Compensation Insurance, Inc., is a primary source on remuneration of workers' compensation gross wages. Internal Audit used NCCI to determine whether the payroll codes used in determining workers' compensation payroll were accurate and consistently applied.

Internal Audit tested the latest five years of reports sent to the State ending with the August 31, 2008 to ensure proper remuneration, completeness of all employees, and the proper period of reporting. All of the reports reviewed appeared to contain all employees paid and were for the proper reporting period. It was noted, however, that payroll codes used to compile workers' compensation gross wages were not consistent with NCCI rules, resulting in an under-reporting of payroll of approximately $12,850,000 for the last five years. A total of 80 payroll codes out of 781 payroll codes used by all of the Constitutional Officers were not applied correctly. The financial impact of the under-reporting of workers' compensation payroll appears to be approximately $57,800.

Risk Management's role in reporting workers' compensation payroll has been limited to requesting from the Constitutional Officers their individual payroll reports and compiling the information using the State's report forms. Neither the Constitutional Officers nor the Risk Management staff was aware of the remuneration requirements for workers' compensation gross wages. As a result, the payroll codes used in the reports were not accurate and contributed to the under-reporting of workers' compensation gross wages used in determining the County's assessment.

Management Action Plan:
Management has obtained a subscription to NCCI and will educate and train the Constitutional Officers on remuneration of workers' compensation payroll reports. Management will provide guidance to Constitutional Officers when new payroll codes are implemented and review annual reports to ensure compliance with NCCI rules. Furthermore, Management will work with the State of Florida Division of Workers' Compensation on settling any monies due as a result of the under-reporting of workers' compensation payroll. Management anticipates implementation by December 31, 2009.
AREA FOR IMPROVEMENT #2

POLICIES AND PROCEDURES

Risk Management has not developed a written policies and procedures manual that reflect current reporting responsibilities, guidelines, and procedures. A complete policies and procedures manual may provide consistency in the performance of the workers' compensation duties and responsibilities and can be used as a training tool for new employees. The audit identified the following areas that should be addressed in the development of a policies and procedures manual:

- NCCI rules relating to what payroll codes are included and excluded from remuneration of workers' compensation payroll;
- Contact information relating to the NCCI service;
- Define the annual reporting period for reporting remuneration of workers' compensation payroll and request the report in both Excel and Adobe formats;
- Define the review procedures employed to ensure the accuracy of the workers' compensation payroll; and
- Define the steps performed in compiling all the Constitutional Officers' reports to meet State reporting requirements, including reporting deadlines.

Management Action Plan
Management is in the process of developing a policies and procedures manual relating to the reporting requirements of the workers' compensation program. Management anticipates completion by January 2010.