



Manatee County

R.B. "Chips" Shore

Clerk of the Circuit Court and Comptroller

P.O. Box 25400 • Bradenton, Florida 34206 • (941) 749-1800 • FAX (941) 741-4082 • www.manateeclerk.com

MEMORANDUM

To: Tedd Williams, County Attorney
From: R. B. "Chips" Shore, Clerk of the Circuit Court and Comptroller
Date: February 22, 2012
Subject: Risk Management - Workers' Compensation Payroll Reporting Follow-up Audit #1

The Internal Audit Department has completed a follow-up audit based on the Clerk of the Circuit Court's Audit Report of the County Attorney's Office Risk Management - Workers' Compensation Payroll Reporting Audit issued on August 11, 2009. The follow-up consisted of reviewing the Management Action Plans included in the original audit report to ensure corrective actions have been implemented by Risk Management Division's management. The follow-up audit scope consisted of verifying the information included in the last three payroll reports submitted to the State of Florida Division of Workers' Compensation for the periods ending August 31, 2009, August 31, 2010 and August 31, 2011.

Risk Management Workers' Compensation Section continues to be responsible for 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. Since the original audit report was issued, the Division has not fully implemented the Management Action Plans and as a result, some of the audit findings continue to require management's attention. The management team has re-evaluated each area for improvement that remains outstanding and has developed updated corrective action plans. During the February 8, 2012 exit meeting, your management staff, together with the Internal Audit Department, agreed on the following action plans that when implemented, will improve accountability and reporting of the workers' compensation payroll to the State:

1. The workers' compensation payroll information differs from actual payroll paid to employees, in that certain payroll codes are excluded from workers' compensation gross wages, and overtime is always calculated on straight time. During the original audit, each Constitutional Officer was asked to maintain a grouping sheet of payroll codes that shows which of these codes are to be included or excluded when calculating workers' compensation wages and communicate this information to Information Services Department (ISD). ISD uses this information to generate a Workers' Compensation Payroll Report used by Risk Management in fulfilling their State reporting requirements. The system has the ability to produce the reports in both Adobe and Excel format. The last page of the Adobe formatted report shows how the system treated each payroll code. The treatment of these payroll codes should not change except for additions of new payroll codes made during the year. Any new codes should be reviewed by Risk Management against National Council on Compensation Insurance (NCCI) rules to ensure they are being properly treated for workers' compensation reporting. Our review of this process found the following exceptions:

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- a. Risk Management is not comparing the grouping sheets to the ISD Adobe Workers' Compensation reports to identify new payroll codes that were added during the year. Current procedures require these payroll codes be checked against NCCI classification rules to ensure that they are properly included, excluded, or adjusted to straight time.
- b. A review of the payroll codes on the grouping sheets compared to the ISD Adobe reports found the following number of codes to be either not addressed on the grouping sheet or treated inconsistent according to NCCI rules:
 - Property Appraiser's Office - 1 out of 48 codes, or 2.1%
 - BCC/MPO/SOE - 7 out of 205 codes, or 3.4%.
 - Sheriff's Office - 7 out of 55 codes, or 12.7%,

The majority of these exceptions were initially identified during the original audit; however, it does not appear that these exceptions were communicated to the Constitutional Officers and therefore, were not corrected. In addition, because Risk Management did not perform the reconciliation of grouping sheets to ISD system generated reports, they were not aware that these exceptions continued to exist.

Management Action Plan: Management is in the process of emailing the Constitutional Officers above, with a list of the payroll code exceptions so that they may update their Grouping Sheets and place a work order with ISD to have these codes properly changed in the ISD system generated reports. Once completed, the Constitutional Officers will submit a revised grouping sheet along with an ISD system generated report in Adobe, to management, who will ensure that the payroll codes are properly accounted for. Implementation is anticipated within six months.

2. The workers' compensation payroll reported to the State for the Sheriff's Office for the 2010 reporting year was overstated by \$3,621,564 or 6.58%. This error resulted from Risk Management adding a formula to the ISD system generated Excel report that combined overtime with gross earnings. The gross earnings figure already included overtime, causing overtime wages to be counted twice. As a compensating control, the original audit recommended that Risk Management obtain the ISD system generated report in both Adobe and Excel formats to ensure gross earning totals agree. Risk Management did not receive the Adobe format of the ISD system generated report, and as a result, they were not able to compare the totals that would have identified the difference.

Management Action Plan: Management will require, as part of their standard operating procedures, each Constitutional Officer (except for the Tax Collector's Office addressed in Finding#4) to submit the ISD system generated Workers' Compensation Report in both Adobe and Excel formats and ensure that the totals of both reports agree. Implementation is expected by the next reporting period of August 31, 2012.

3. The workers' compensation payroll reported to the State for the Property Appraiser's Office was overstated by \$12,733 for the 2009 reporting year. NCCI rule 2-D states that executive officer's salaries are capped at a rate determined by the State annually for workers' compensation reporting purposes. Officers are defined as elected officials, the County Administrator and the County Attorney. In 2009, the Property Appraiser's salary was in

excess of this cap and Risk Management did not adjust this excess from the Office's workers' compensation payroll figures included in the annual State report.

Management Action Plan: Management will update their policies and procedures manual to include a step that requires a review of executive salaries to ensure that adjustments are made on those that are above the cap. Implementation is anticipated within three months.

4. Risk Management has not been receiving adequate reports from the Tax Collector Office to determine if any new codes were added during the three year reporting period ending August 31 2011. The Tax Collector's Office uses a software program called "Incase" for workers' compensation payroll reporting. This system has the ability to generate a report that details the excluded types of payroll codes similar to the system generated ISD reports. It did not appear, however, that Risk Management was receiving this report from the Tax Collector's system to determine if any new codes were added during the period and if they were correctly handled per NCCI rules. Internal Audit reviewed the most recent report and found that no new payroll codes had been added.

Management Action Plan: For the August 31, 2012 reporting period, Management will begin requesting the appropriate "incase" report from the Tax Collector's Office to ensure that any new payroll codes are consistently reported in compliance with NCCI rules.

5. The Risk Management Department has developed policies and procedures for the completion of the annual workers' compensation payroll reports. These procedures, however, do not appear to adequately address all areas of the process. A review of the policies and procedures found that the addition of the following areas may assist in the consistent application of the workers' compensation payroll reporting process each year. They include the following:

- a. Add full text of the NCCI rules that apply such as Basis of Premium (Rule 2) and exclusion of overtime (Rule 2-C-2).
- b. Define the reporting period of 9/1 to 8/31.
- c. Change "SIC category" language to the correct terminology of "Class Code."
- d. Address overtime as a component of this reporting process.
- e. Determine and document the steps for notifying ISD of necessary programming changes for new or revised payroll codes.
- f. Address the process for limiting the executive officer's pay to the stated maximums and define who is considered an executive officer.

Management Action Plan: Management is in the process of updating their policies and procedures relating to workers' compensation reporting to ensure all aspects of the process are adequately addressed. Implementation is anticipated within three months.

6. Risk Management did not appear to be effectively utilizing NCCI resources to ensure new codes were properly classified. As a result new payroll codes added for the Board of County Commissioners and Sheriff's Office were not properly classified.

Management Action Plan: Risk Management recently hired a new workers' compensation claims adjuster, who will be responsible for compliance with State reporting requirements. The adjuster understands the importance of the NCCI resources and will begin educating herself with all the rules associated with workers' compensation reporting to the State. Implementation is anticipated within three months.

We would like to thank you and your staff for the attention given to the audit findings and the cooperation given to the Internal Audit staff. Another follow-up audit will be scheduled after the implementation of the Management Action Plans.

RBS/MDB/GR

CC: Board of County Commissioners
Ed Hunzeker, County Administrator