

**SCHOOL DISTRICT OF ESCAMBIA COUNTY
INTERNAL AUDITING DEPARTMENT**

**REVIEW OF
WORKERS' COMPENSATION INDEMNITY PAYMENT PROCESS**

PROJECT # 2002-01

Accepted By Audit Planning and Review Committee:

August 27, 2001

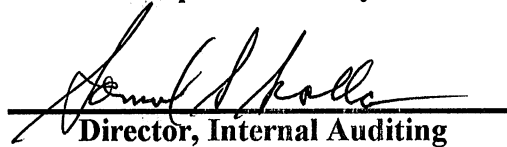
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Field Work Conducted By :

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Auditor**

Report Issued By:


Director, Internal Auditing

**SCHOOL DISTRICT OF ESCAMBIA COUNTY
WORKERS' COMPENSATION INDEMNITY PAYMENT PROCESS**

REVIEW REPORT

Background

The District operates a self-insured workers' compensation program. To assist them in administering this program, the District uses a managed care program administered by CorVel Corporation. As part of their contract they perform a pre-audit of workers' compensation *medical claims*. As their work is completed, these bills are submitted to the District for payment. Payments for workers' compensation salary benefits or *indemnity payments* as they are called are calculated and paid in-house.

Previously, payments of all workers' compensation claim expenses, medical and indemnity were processed and paid in one department, Risk Management. However, when the Risk Management Accounting Department was created in the mid 1990's, payment of *medical claims* was transferred to that department while payment of indemnity claims remained in the Risk Management Department. Today, both departments use the same computerized system, American Technical Services system or ATS, to process workers' compensation claims and issue checks.

The annual audit of the Escambia County School District for the fiscal year ending June 30, 2000 was performed by an external CPA firm. In their report, they noted instances where employees returning to work from a workers' compensation injury had received indemnity payments they were not entitled to. The firm recommended that procedures be established to stop workers' compensation payments when employees return to work.

Prior to this audit, the Auditor General also noted weaknesses in the processing of workers' compensation indemnity payments and made recommendations during the audits of the District for the fiscal year ending June 30, 1999 as well as June 30, 1997. An internal audit of Risk Management Accounting, for the fiscal year ended June 30, 1999, also included recommendations addressing workers' compensation indemnity payments.

Scope and Objectives

As a follow up to the findings and recommendations referenced above, we have performed a review of the workers' compensation indemnity payment process related internal controls. The scope of our work included the review of internal controls currently in place (June 2001) over workers' compensation indemnity payments. The objective of our review was to provide reasonable assurance that internal controls established by the District's Risk Management Department over workers' compensation indemnity payments are adequate, placed in service, and functioning as designed. In addition our review was designed to determine whether corrective actions have been implemented regarding weaknesses in internal controls reported in previous audits.

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Conclusion

Based on our review, we believe that internal controls over the workers' compensation indemnity payments appear to be sufficient to reduce to a relatively low level the risk that material errors or irregularities will occur and go undetected. However, we noted several opportunities to improve the efficiency and effectiveness of the process reviewed while improving internal controls in that area. These items are discussed in the observations and recommendation's section of our report.

Observations & Recommendations

Observations and recommendations discussed below fall into the following two categories: improvements to internal controls and improvements that result in increased efficiency of operations. We also want to point out that although our review focused on the Risk Management Department, a function of the Human Resource Department, some of the issues address activities and responsibilities of other departments including the Risk Management Accounting Department, a function of the Finance and Business affairs Department. With the exception of issues concerning segregation of duties, our recommendations are not intended to define the roles and responsibilities of the various departments. Those decisions are left to management. Our recommendation is that appropriate action be taken, not which department should perform the function.

- Employees have received indemnity payments as well as their regular pay after returning to work. These double payments occur for a number of reasons. The only documentation of overpayments is retained in the claimant's folder. Although Risk Management makes a concerted effort to collect these overpayments no records are kept that track the number and amount of such double payments or how much is collected and still outstanding. This has resulted in follow-ups not being pursued thoroughly.

To improve accountability and increase the likelihood of collection we recommend that Risk Management keep a separate log/spreadsheet of the number of overpayments made, the amount of the overpayment and whether or not the funds have been collected from the claimant. In addition, district staff should determine whether amounts owed constitute an account receivable requiring an entry to the School District's general accounting system whenever an overpayment occurs.

- The Risk Management Specialist calculates the amount of the indemnity payment due to a claimant through access to the payroll accounting system. However, if the employee's weekly schedule is not standard and they work inconsistent hours, the Payroll Department calculates the amount. The average weekly wage largely determines the amount of compensation a claimant receives.

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We are concerned that the same person setting up the claimant in the workers' compensation system also determines the amount of the payments. The Specialist has control over the indemnity payment transaction process such that errors or irregularities in the calculations of payments could occur and not be detected in a timely fashion.

To improve internal control over the payment process, we recommend that someone other than the Risk Management Specialist prepare the earnings section of the Wage Statement for all indemnity claims.

- Checks are hand delivered, on occasion, by the Risk Management Specialist to the claimant's attorney. This normally occurs when time is of the essence due to a court order requiring the check be given to an attorney on a date certain. In these cases, mailing the check would result in late penalties and interest being assessed. Checks should never be returned to the person who prepared them.

We recommend that someone other than the Risk Management Specialist deliver checks to the claimant/claimant's attorney.

- When changes are made to a claimant's status, a State of Florida form DWC-4 is created in the ATS automated system. The details of the changes are keyed into the form stored on the system and a copy of the form is kept in the claimant's folder. The system does not save each form containing changes to each claimant's status. When the form is accessed again, the previous data is overwritten. Such information is also intended to be kept in the "Adjuster's Notes Section" within the system, however, the adjuster is currently not copying this information to this section. This then requires him to have the actual claimant folder with him to answer any questions about the case. Because medical claims are also handled in Risk Management Accounting, the folder cannot always be located immediately. This can cause unnecessary delays in processing claims and responding to questions.

To better utilize the Adjuster's time and reduce the reliance on physical documents, we recommend that the Adjuster use a simple "cut and paste" routine to capture and record pertinent information from the state form to the Adjuster's Notes Section.

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- Chapter 440.20 of the Florida Statute provided for substantial penalties and interest when indemnity payments are not received on time. Penalties and interest have been assessed and paid by the District on workers' compensation indemnity payments in the past. However these, amounts have not been summarized, tracked or monitored. Documentation of these penalties is retained only in the individual claimant folders. To improve accountability, we recommend that the Risk Management Department monitor such payments. We recommend that a separate log or spreadsheet of the number and amount of payments for penalties and interest be maintained. Such log should indicate factors contributing to the assessments.
- The Risk Management Specialist establishes workers' compensation claimants, keys indemnity payment information and prepares the indemnity checks. This control weakness, caused by inadequate segregation of duties, has been cited in previous audits. In response to these findings, the Director has indicated the importance of timely payment of worker's compensation indemnity payments as the primary reason for continuing to draw worker's compensation checks in the Risk Management Department and has implemented mitigating controls such as supervisory review of the check register.

While we understand the importance of issuing indemnity checks in a timely manner, we also note that the Risk Management Accounting Department issues medical claim checks three times each week. In addition, the District's accounting department has established procedures to issue "emergency checks" each workday. Internal control would be improved if checks were printed in a department functionally separate from the Risk Management Department.


We recommend that the printing of checks for workers' compensation indemnity payments be transferred to the Risk Management Accounting Department where medical payments are made.

- As mentioned previously, double payments may occur when employees return to work from a worker's compensation injury. The employees' immediate supervisory often fails to notify either Risk Management or the Payroll Department of the employees return resulting in the employee receiving two payments for the same time period. To reduce the likelihood of such double payments from occurring we recommend that district staff establish procedures with CorVel, the District's managed care administrator, to require that physicians send a copy of the Release to Work notice to the Risk Management Department in addition to the one provided to the employee.

Please see management's response attached.

interoffice...
MEMORANDUM

TO: Sam Scallan, Director, Internal Auditing

FROM: Joseph H. Bernard, Director, Risk Management 

DATE: August 29, 2001

RE: Audit of Workers' Compensation
Indemnity

Thank you for your observations and recommendations regarding the above captioned. I will address the issues in the order listed in your memorandum.

- Every effort is made to avoid overpayment to employees, but due to the timeliness of the notice from the school/department of the employee returning to work, some overpayments are made. The amounts of these overpayments and repayments are kept in the individual claim file. In response to your recommendation a 'Master List' will be kept by the Risk Management Specialist.
- The calculation of the amount of indemnity payment is completed by the adjuster. The Risk Management Specialist obtains the salary information through MIS. This was recommended in previous audits, including the MGT Study. By having the Risk Management Specialist obtain the salary information, this saves time and eliminates additional work for payroll personnel. As stated, if work hours are inconsistent payroll personnel provide the needed assistance. In order to comply with the concern over early detection of improper calculations, a copy of the wage statement (DWC 1A) will be sent to the employee, attached to his/her first indemnity check.
- Checks that need to be hand delivered will be delivered by the adjuster.
- The adjuster will document file with 'cut & paste' routine. Hand copies of all mandated reports will be documented in the individual file in order to comply with the audit from the Workers' Compensation Division.
- A separate log will manually be kept by the Risk Management Specialist of penalties and interest paid, as recommended.

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- Indemnity checks will now be issued by the Risk Management Accounting Department, as recommended.
- Plans are currently being developed to reduce costs (double payments, etc.), improve communication with all parties and obtain improved medical coordination of services.

After receiving this, please let me know if I may be of further assistance. Your cooperation and assistance has been appreciated.

csb

c Marvin Edwards, Claims Adjustor
Karen Christakos, Risk Management Specialist