

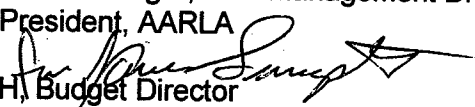
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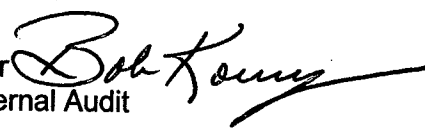


BUDGET & MANAGEMENT STUDIES – INTERNAL AUDIT

DATE: November 17, 2010

TO: TERRY BOND, Director, Personnel Services Department
DAN TURNER, Risk Manager, Risk Management Division
STEVE WIGH, President, AARLA

THROUGH: RENENA SMITH, Budget Director 
Budget and Management Studies

FROM: BOB KOURY, Principal Internal Auditor 
Budget and Management Studies - Internal Audit

SUBJECT: WORKER'S COMPENSATION PROGRAM AUDIT – FINAL AUDIT REPORT

As a result of our Citywide Risk Assessment Project completed this past year and in accordance with our FY11 Annual Audit Plan, the City's Worker's Compensation Program and the current AARLA Contract was recently audited. Our Final Audit Report is attached.

As a result of this audit, there were no audit findings noted of any significance, nor were any audit recommendations considered necessary. Both the City's Risk Management Division and AARLA Management staff are to be commended for their administration of the City's Worker's Compensation Program and related recordkeeping, reporting and compliance with the terms and conditions of the City/AARLA Contract.

Both Risk Management and AARLA provided their Management Responses to this audit which are attached to this report.

We wish to thank you and your staff for your assistance and cooperation during the course of this audit. If you have any questions, please contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachments

cc: Ashley Swearengin, Mayor
City Council Members
Mark Scott, City Manager
Bruce Rudd, Assistant City Manager
Nicole Zieba, Deputy City Manager
James Sanchez, City Attorney
Joe Gray, Finance Director/City Controller
Pedro Rivera, Senior Budget Analyst, Budget & Management Studies



INTERNAL AUDIT

FINAL AUDIT REPORT

**Worker's Compensation Program and City/AARLA Contract
Audit**

**Performed By:
Bob Koury, Principal Internal Auditor
Budget and Management – Internal Audit**

Issued on November 17, 2010

Background

The City's Worker's Compensation Program is a no-fault, benefit delivery system which compensates employees who are injured at work. All employers with employees in the State of California are required to provide Worker's Compensation coverage. The City of Fresno is "self-insured" which means that it does not purchase an insurance policy for Worker's Compensation coverage. The City pays benefits directly to injured employees, medical providers and others who may provide various services to an injured employee or the employer.

The City has hired a "third party administrator" - American All Risk Loss Administrators (AARLA), to ensure that all benefits that are required by law are provided in a timely manner and to handle and process all related claims and paperwork related to the City's Worker's Compensation Program. The current City/AARLA Contract was effective April 1, 2007 and expires on February 28, 2011.

Audit Objectives

The primary audit objectives of this audit were to determine and provide reasonable assurance that:

The Risk Management Division and AARLA, have established and maintain an adequate system of internal controls related to the City's Worker's Compensation Program and related claims processing, record-keeping and reporting system;

The Risk Management Division and AARLA, as the City's "third party administrator", are in compliance with all terms, conditions and requirements of the current Contract between the City and AARLA; and

All applicable laws, regulations, policies and procedures have been adequately complied with by both the City (Risk Management) and AARLA as related to the City's Worker's Compensation Program.

Audit Scope and Methodology

The City's Worker's Compensation Program and City/AARLA Contract was recently audited by the City's Principal Internal Auditor, in accordance with AO 1-12 and Government Auditing Standards. The audit was conducted during July through September 2010.

To accomplish our audit objectives, we performed interviews of all appropriate City and AARLA personnel, reviewed all relevant Program documentation and reports, performed pertinent audit procedures related to AARLA's Claims Processing System, and tested compliance with the City/AARLA Contract provisions, requirements and terms as appropriate. Other audit procedures were performed as considered necessary under the circumstances.

Conclusion

As a result of this audit, there were no audit findings noted of any significance, nor were any audit recommendations considered necessary. Both the City's Risk Management Division and AARLA Management staff are to be commended for their administration of the City's Worker's Compensation Program and related recordkeeping, reporting and compliance with the terms and conditions of the City/AARLA Contract.

Both Risk Management and AARLA provided their Management Responses to this audit which are attached to this report.


City of



PERSONNEL SERVICES DEPARTMENT

DATE: November 4, 2010

TO: Bob Koury, Principal Internal Auditor
Finance Dept., Internal Audit Division

THROUGH: TERRY BOND, Personnel Director
Personnel Services, Administration 

FROM: DANIEL G. TURNER, Safety/Risk Manager
Personnel Services, Risk Management 

SUBJECT: WORKERS' COMPENSATION PROGRAM AUDIT- FINAL DRAFT REPORT

Thank you for your memorandum of October 28, 2010 regarding your program audit of the City's self-insured Workers' Compensation program.

We are certainly pleased your audit resulted in no findings of any significance. I have also conferred with Steve Wigh with AARLA, and he is likewise satisfied with your conclusions.

As a result of obtaining a "clean" audit, we do not have any comments to make with regard to the proposed audit report and would like to add that we enjoyed the opportunity to work with you on this matter.

c. Renena Smith, Budget Director, Finance Department
Steve Wigh, President, American All Risk Loss Administrators

Management Response to Audit Report from AARLA 11/16/10

“Dear Bob: We are obviously quite pleased with the audit results and we like to thank you for the time and effort you put in on this project. We are fortunate to have a great working relationship with Dan Turner and Clark Connelly in the Risk Department and this audit in my estimation shows it. Thanks again, Steve.”

Steven C. Wigh, President

American All-Risk Loss Administrators, Inc.