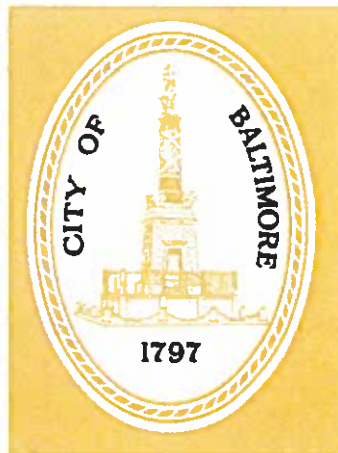


PERFORMANCE AUDIT REPORT

**DEPARTMENT OF FINANCE
OFFICE OF RISK MANAGEMENT
FOR EMPLOYEE INJURIES**

**FOR THE PERIOD FROM
JULY 1, 2013 THROUGH JUNE 30, 2015**

September 22, 2016



**City of Baltimore
Department of Audits**



September 22, 2016

Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
City of Baltimore

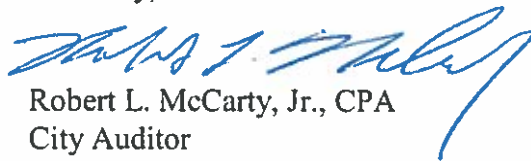
We conducted a performance audit of the Department of Finance, Office of Risk Management for Employee Injuries (Risk Management). The purpose of our performance audit was to assess Risk Management's internal controls and the related policies and procedures to monitor, control, and report financial loss exposure to the City of Baltimore due to employee injuries for selected performance measures and to determine whether it met its targets for those selected performance measures.

As a result of our audit, we noted certain areas where the effectiveness of the control procedures could be improved and we recommend that:

- Risk Management develop procedures to follow-up on "no shows" by sending those employees for testing as soon as they return to work. We also recommend that Risk Management consider selecting more than 15 employees each day for drug or alcohol testing in order to compensate for the number of "no shows" and, thereby, increase the likelihood of meeting its established goals for the number of drug or alcohol tests actually performed.
- Risk Management continue to work with the Department of Human Resources (DHR) to identify all sensitive job classifications that, according to the City's Substance Abuse Control Policy, should be included in the population of employees to be selected for random drug or alcohol testing.
- Risk Management regularly review the billings for drug and alcohol tests performed by the testing facility to ensure that the City is only billed for the specific drug or alcohol tests ordered, and that tests for the Baltimore City Public School System (BCPSS) employees are properly billed to the BCPSS and not to the City. We also recommend that Risk Management review the billings for fiscal years 2014 and 2015 to determine whether there were any other overbillings and, if so, recover all overbilled amounts.

- Risk Management focus its efforts, including proactive measures, on those Agencies, Departments, or Bureaus with the highest average cost per claim for employee injuries, the highest number of claims per 100 employees, and the highest amount of accident leave paid.
- Risk Management enhance its proactive measures, for example, by encouraging employee participation in periodic safety committees/teams that develop and implement safety initiatives, encouraging suggestions from employees to improve work safety habits and eliminate hazards before they occur, encouraging employees to report observations of unsafe working conditions or hazards including any “near misses” for which no claims were filed, and sharing lessons learned from accident investigations and any other observations with employees.
- Risk Management review the performance measure targets for the average cost per claim for employee injuries, the number of claims filed per 100 employees, and the amount of accident leave paid, and determine whether those targets require updating or revisions based on past actual amounts.

Sincerely,



Robert L. McCarty, Jr., CPA
City Auditor

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Background Information

The Department of Finance, Office of Risk Management for Employee Injuries' (Risk Management) mission is to create and promote a safe and supportive work environment and reduce the City's exposure to financial loss. As such, among other responsibilities, Risk Management seeks to prevent employee injuries by promoting accident prevention, providing safety training and workshops, conducting building inspections to ensure regulatory compliance, and selecting employees for random drug or alcohol tests. Employees of the City and the Baltimore City Public School System (BCPSS) with Commercial Driver Licenses (CDL) that are required for their jobs are randomly selected and sent to a testing facility for drug or alcohol testing. The testing facility bills either the City or the BCPSS, as applicable, for those tests.

Risk Management also conducts monthly meetings with agency heads to discuss types of losses incurred, conducts quarterly oversight meetings to discuss updates on workers' compensation information, and examines the causes of employee injuries reported and recommends applicable training. The City utilizes a third-party vendor, Key Risk Management Services, Inc. (Key Risk), to manage and handle workers' compensation claims and payments for employee injuries. Risk Management's budget included 18 full-time positions for fiscal year 2014 and 17 full-time positions for fiscal year 2015.

Audit Scope, Objectives and Methodology

We conducted a performance audit of the Department of Finance, Office of Risk Management for Employee Injuries (Risk Management). The purpose of our audit was to assess Risk Management's internal controls and the related policies and procedures to monitor, control, and report financial loss exposure to the City of Baltimore due to employee injuries for selected performance measures and to determine whether it met its targets for those selected performance measures. We conducted our audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to assess whether the internal controls and related policies, processes, and procedures of Risk Management were effectively designed and placed in operation to monitor, control, and report financial loss exposure to the City of Baltimore due to employee injuries for selected performance measures and whether it met its fiscal year 2014 and 2015 targets for the following selected performance measures:

1. The Number of Random Employee Drug and Alcohol Tests Performed;
2. The Average Cost per Claim;
3. The Number of Claims Filed per 100 Employees; and
4. The Dollar Amount of Accident Leave Paid.

To accomplish our objectives, we conducted inquiries of key individuals in order to obtain an understanding of the internal controls and related policies, processes and procedures, and systems, established for Risk Management. Where possible, we also utilized the systems' documentation obtained as part of our audit of the City's Comprehensive Annual Financial Report (CAFR). We also performed tests, as necessary, to verify our understanding of the applicable policies and procedures; reviewed applicable records and reports utilized to process, record, monitor, and control Risk Management's functions pertaining to employee injuries; assessed the efficiency and effectiveness of those policies and procedures; and determined whether Risk Management met its performance measure targets. We performed tests of various records and reports for the period from July 1, 2013 through June 30, 2015. Our audit also identified other areas that we believe should be brought to management's attention as a result of observations and information obtained during the course of the audit.

Our findings and recommendations are detailed in the Findings and Recommendations section of this report. The responses of the Department of Finance, Office of Risk Management for Employee Injuries and the Department of Audits' comments to those responses are included as appendices to this report.

Findings and Recommendations

Policies and Procedures for Random Drug and Alcohol Testing

Background

According to the City's Substance Abuse Control Policy, employees of the City of Baltimore have a right to a safe and drug-free work place. Also, the citizens of Baltimore have a right to require public employees to be alcohol-free and drug-free because public health, safety, and welfare are threatened by substance abuse by City employees. Accordingly, employees with Commercial Driver Licenses (CDL) shall be subject to regulated drug and alcohol testing. Also, employees in non-CDL sensitive job classifications shall be subject to unscheduled drug and alcohol testing on a random basis. Employees shall be randomly selected for a drug or alcohol test using a computer-based random number generator that is matched with the drivers' Social Security Numbers or payroll identification numbers. Separate selections will be made for drug testing and for alcohol testing. Drug and alcohol testing shall be unannounced, and the employee shall be tested immediately upon notification. All active employees shall remain in the random pool and could be re-tested at any time. The City's Substance Abuse Control Policy applies to employees in all positions in the Baltimore City government except those sworn positions in the Police Department and Fire Department, which issue their own departmental policies relating to drug and alcohol abuse.

According to Risk Management, the listing of employees with CDLs was created by the Mayor's Office of Information Technology (MOIT) and is updated whenever there is a new CDL employee who is issued a City Driver Permit. The names of employees no longer working for the City are not removed from the data base, but those employees are classified as inactive and are not pulled for the random drug or alcohol tests.

Risk Management generally selects 15 employees with CDLs each work day to be sent to the testing facility for drug or alcohol testing (12 employees for drug testing and 3 employees for alcohol testing). Employees of the Baltimore City Public School System (BCPSS) in positions requiring a driver permit and CDL are included in the data base of employees to be selected for testing. However, the City does not pay for those drug or alcohol tests; the BCPSS is billed directly by the facility conducting those tests.

Conclusions

Enhancements can be made to improve the efficiency and effectiveness of the selection process for random drug and alcohol testing and for monitoring the billings for those tests. The number of employees selected for drug and alcohol testing exceeded the established performance measures; however, the number of drug and alcohol tests performed during fiscal years 2014 and 2015 fell short of those targets. Also, according to the City's Substance Abuse Control Policy, employees with Commercial Driver Licenses (CDL) and employees in non-CDL sensitive job classifications shall be subject to unscheduled drug and alcohol testing on a random basis. However, employees in non-CDL sensitive job classifications were not included in the data base

used to select employees for random drug or alcohol testing. Also, on numerous occasions, employees were sent for either drug or alcohol testing; however, the City was billed for both tests. Additionally, on a few occasions, the charges for drug or alcohol tests for BCPSS employees were billed to the City rather than to the BCPSS.

Finding #1

Risk Management did not meet its target for the number of random employee drug and alcohol tests performed during fiscal years 2014 and 2015.

Analysis

Risk Management did not meet its target for the number of random employee drug and alcohol tests performed during fiscal years 2014 and 2015. The targets for the number of random drug and alcohol tests performed during fiscal years 2014 and 2015 were 2,900 and 2,700, respectively. Although the number of employees selected for testing exceeded those targets, the number of employees actually tested fell short of those goals by 590 for fiscal year 2014 and 345 for fiscal year 2015. We reviewed drug and alcohol test information for two weeks (one week during fiscal year 2014 and one week during fiscal year 2015). For the week during fiscal 2014 that we tested, 60 employees were selected for drug or alcohol tests and 19, or 31.7%, of those employees did not show up (“no shows”) for their scheduled drug or alcohol tests. For the week during fiscal year 2015 that we tested, 74 employees were selected for drug or alcohol tests and 25, or 33.8%, were “no shows” for their scheduled drug or alcohol tests. We found that most of those “no shows” resulted because the selected employees were on leave for the day the tests were to be conducted. Also, no follow-up was done to send those employees who were “no shows” for testing once they returned to work. Follow-ups will, however, result in increased costs to the City because the City is not billed for “no shows.” According to Risk Management’s records for fiscal year 2014, there were a total of 600 “no shows”, representing 20.6% of the number of employees selected for testing. For fiscal year 2015, there were a total of 1,043 “no shows”, representing 30.7% of the number of employees selected for testing.

Recommendation #1

We recommend that Risk Management develop procedures to follow-up on “no shows” by scheduling those employees for testing as soon as they return to work. We also recommend that Risk Management consider selecting more than 15 employees each day for drug or alcohol testing in order to compensate for the number of “no shows” and, thereby, increase the likelihood of meeting its established goals for the number of drug or alcohol tests actually performed.

Finding #2

Employees in non-CDL sensitive job classifications were not included in the data base used to select employees for random drug or alcohol testing.

Analysis

Employees in non-CDL sensitive job classifications were not included in the data base used to select employees for random drug or alcohol testing. According to the City’s Substance Abuse Control Policy, however, employees with Commercial Driver Licenses (CDL) and employees in

non-CDL sensitive job classifications shall be subject to unscheduled drug and alcohol testing on a random basis.

Sensitive job classifications include all City drivers and are not limited to the classes that are listed in Appendix B of the City's Substance Abuse Control Policy. Such classes have a substantially significant degree of responsibility for the safety of others and/or a potential in which impaired performance of the employee could result in death or injury to the employee or others. According to Risk Management, employees in sensitive job classifications are not included in the population of employees to be selected for drug or alcohol testing because of changes in position titles that have made it difficult to identify all sensitive class positions that should be included in the population.

Recommendation #2

We recommend that Risk Management continue to work with the Department of Human Resources (DHR) to identify all sensitive job classifications that, according to the City's Substance Abuse Control Policy, should be included in the population of employees to be selected for drug or alcohol testing.

Finding #3

Risk Management did not adequately monitor billings for random drug or alcohol tests.

Analysis

Risk Management did not adequately monitor billings for random drug and alcohol tests. We tested billings for random drug and alcohol tests performed for one week in fiscal year 2014 and one week in fiscal year 2015 and found that, on numerous occasions, employees were sent for either drug or alcohol testing; however, the City was billed for both tests. Additionally, on a few occasions, the charges for drug or alcohol tests for BCPSS employees were billed to the City rather than to the BCPSS.

For the two weeks that we tested, there were 434 billings for employees that were sent for random drug or alcohol tests. We reviewed the billings for drug or alcohol tests and compared those billings to the listings of employees selected for those tests and found that on 46 occasions, or 10.6%, employees were sent for either drug or alcohol tests, but the City was billed for both tests. This resulted in apparent overbillings of \$1,998. We also reviewed billing information for BCPSS employees for October 2013 and February 2015 and found that on three occasions, the City was billed for BCPSS employees' tests, totaling \$115, which should have been billed to the BCPSS.

Recommendation #3

We recommend that Risk Management regularly review the billings for drug or alcohol tests performed by the testing facility to ensure that the City is only billed for the specific drug or alcohol tests ordered and that tests for BCPSS employees are properly billed to the BCPSS and not the City. We also recommend that Risk Management review the billings for fiscal years 2014 and 2015 to determine whether there were any other overbillings and, if so, recover those overbilled amounts.

Average Cost Per Claim, Number of Claims Filed Per 100 Employees, and Amount of Accident Leave Paid

Background

When a claim is filed by an employee injured on the job, the City's third party vendor, Key Risk Management Services, Inc. (Key Risk), evaluates various reports, such as doctors' notes, laboratory tests, clinic reports, and other related information, and determines an estimated amount to be established as a reserve to pay the claim. The initial reserve amount could later increase or decrease as the claim develops and generally consists of the following:

1. Indemnity Benefits (including Accident Leave, Disability, and Vocational Rehabilitation);
2. Medical Costs (including costs for hospital charges, doctors' visits, X Rays, surgery, anesthesia, and physical therapy);
3. Rehabilitation; and
4. Other Related Costs (including legal fees and possible surveillance costs).

Risk Management provided us with schedules showing the total incurred costs for employee injury claims for fiscal years 2014 and 2015. The schedules also include the number of employee injury claims for City employees and for employees of the Baltimore City Public School System (BCPSS). Based on that information, we computed the average cost per claim shown on Exhibits I and II of this audit report. The total incurred costs consist of the actual amounts paid as of June 30, 2014 and June 30, 2015 and the amounts established as reserves at June 30th of each of those fiscal years. It is Risk Management's practice to include amounts for Total Incurred Costs (amounts paid plus reserves) only for those claims that were initiated during each applicable fiscal year; i.e., the schedules do not include any amounts paid during the fiscal year or changes in reserves for claims that were initiated during previous years. Also, the schedules for each fiscal year do not include amounts paid or changes to reserve amounts made in subsequent fiscal years. The City bills the BCPSS for its share of claims, based on premium amounts as determined by an actuarial report and a percentage of applicable administrative expenses based on the number of BCPSS claims.

The Number of Claims Filed per 100 Employees is based on Risk Management's monitoring of the 10 Agencies, Departments, or in some cases Bureaus, as well as the BCPSS, reporting the most claims.

The amount of Accident Leave Paid was obtained from a "Risk Finance Stat Template" report furnished to us by Risk Management. Generally, employees are paid an amount equal to sixty-six and two thirds percent (66 2/3%) of his/her regular pay and is not subject to either federal or state income tax. Additionally, Police receive a supplement so that the gross pay of employees is equal to eighty-five percent (85%) of the employee's regular gross pay. Fire Officers receive their usual salary for twelve (12) months, provided their disability shall last that time. However, these additional amounts for Police and Fire Officers are not included in Exhibits I and II of this report, or in Risk Management's supporting schedules.

Finding #4

The average cost per claim for employee injuries, the number of claims filed per 100 employees, and the amount of accident leave paid exceeded the established performance measure targets for fiscal years 2014 and 2015.

Analysis

The average cost per claim for employee injuries, the number of claims filed per 100 employees, and the amount of accident leave paid exceeded the established performance measure targets for fiscal years 2014 and 2015. For fiscal year 2014, the total Average Cost per Employee Injury Claim was \$9,944 compared to the performance measure target of \$7,500 (See Exhibit I); 9 of the 22 Agencies, Departments, or Bureaus included on Exhibit I exceeded the target. For fiscal year 2015, the total Average Cost per Employee Injury Claim was \$10,896 compared to the performance measure target of \$7,000 (See Exhibit II); 9 of the 27 Agencies, Departments, or Bureaus included on Exhibit II exceeded the target.

The number of claims filed per 100 employees for the ten Agencies, Departments, or Bureaus, including the Baltimore City Public School System, with the most claims also exceeded the established performance measure targets for fiscal years 2014 and 2015. For fiscal year 2014, the number of claims filed per 100 employees was 13.5, compared to the target of 12.0. Six of those ten Agencies, Departments, or Bureaus exceeded the target, with the highest number of claims per 100 employees being reported for the Department of Public Works – Bureau of Solid Waste (30.8), the Police Department (30.1), the Fire Department (25.4), and the Department of Transportation (24.6). For fiscal year 2015, the number of claims filed per 100 employees was 14.4, compared to the target of 12.0. Five of those ten Agencies, Departments, or Bureaus exceeded the target, with the highest number of claims per 100 employees being reported for the Department of Public Works – Bureau of Solid Waste (37.0), the Police Department (36.0), the Fire Department (27.1), and the Department of Transportation (25.6).

The amount of Accident Leave Paid also exceeded the established performance measure targets for fiscal years 2014 and 2015. According to the “Risk Finance Stat Template,” the amount of accident leave paid for fiscal year 2014 was \$4.3 million, compared to the performance measure target of \$4.0 million. The amount of accident leave paid for the Fire and Police Departments totaled \$3.4 million, or 85% of the total performance measure target. According to the “Risk Finance Stat Template,” the amount of accident leave paid for fiscal year 2015 was \$5.0 million, compared to the performance measure target of \$2.8 million. The amount of accident leave paid for the Fire and Police Departments was \$3.9 million, or 139% of the total performance measure target.

Recommendation #4

We recommend that Risk Management focus its efforts, including proactive measures, on those Agencies, Departments, or Bureaus, including the Baltimore City Public School System, with the highest average cost per claim for employee injuries, the highest number of claims per 100 employees, and the highest amount of accident leave paid. In addition to the monthly meetings held with agency heads to discuss the types of losses incurred, and examining the causes of employee injuries reported and recommending applicable training,

we recommend that Risk Management enhance its proactive measures, for example, by encouraging employee participation in periodic safety committees/teams to develop and implement safety initiatives, encouraging suggestions from employees to improve work safety habits and eliminate hazards before they occur, encouraging employees to report observations of unsafe working conditions or hazards including any “near misses” for which no claims were filed, and sharing lessons learned from accident investigations and any other observations with employees. We also recommend that Risk Management review the future performance measure targets to determine whether those targets require updating or revisions based on past actual amounts.

**AVERAGE COST PER EMPLOYEE INJURY CLAIM
FOR THE AGENCIES MONITORED BY RISK MANAGEMENT
FISCAL YEAR 2014**

AGENCY	CLAIMS	TOTAL PAID	TOTAL RESERVED	TOTAL INCURRED	AVG. COST PER CLAIM
CONVENTION COMPLEX	12	16,702.23	27,223.87	43,926.10	3,660.51
COURTS: CIRCUIT COURT	4	5,132.86	12,680.00	17,812.86	4,453.22
DEPT OF TRANSPORTATION	418	681,330.49	1,310,984.45	1,992,314.94	4,766.30
DPW-BUREAU OF SOLID WASTE	228	482,579.61	1,537,427.85	2,020,007.46	8,859.68 A
DPW-BUREAU OF WATER/WASTEWATER	252	708,882.16	1,715,510.05	2,424,392.21	9,620.60 A
DPW-DIRECTOR OF PUBLIC WORKS	1	8.00	0.00	8.00	8.00
ENOCH PRATT FREE LIBRARY	14	126,311.39	57,692.16	184,003.55	13,143.11 A
FINANCE	10	4,777.91	16,834.19	21,612.10	2,161.21
FIRE DEPARTMENT	414	2,807,742.10	5,041,532.42	7,849,274.52	18,959.60 A
GENERAL SERVICES	55	158,978.03	593,836.52	752,814.55	13,687.54 A
HEALTH	73	37,602.82	118,700.80	156,303.62	2,141.15
HOUSING AND COMMUNITY DEVELOPMENT	48	161,857.95	225,354.66	387,212.61	8,066.93 A
LAW	2	344.40	11,578.00	11,922.40	5,961.20
MISCELLANEOUS MAYORALTY PROGRAMS	27	13,687.53	57,472.92	71,160.45	2,635.57
OFFICE OF CITY COUNCIL	10	10,803.09	23,813.61	34,616.70	3,461.67
OFFICE OF HOMELESS SERVICES	1	4,777.81	12,636.00	17,413.81	17,413.81 A
OFFICE OF THE LABOR COMMISSIONER	1	661.23	0.00	661.23	661.23
POLICE DEPARTMENT	990	3,738,795.59	9,208,631.97	12,947,427.56	13,078.21 A
RECREATION AND PARKS	77	119,925.82	261,215.26	381,141.08	4,949.88
BALTIMORE CITY PUBLIC SCHOOL SYSTEM	787	2,009,865.83	2,726,877.61	4,736,743.44	6,018.73
SHERIFF	20	86,173.29	186,590.42	272,763.71	13,638.19 A
STATE'S ATTORNEY	10	4,632.73	17,172.54	21,805.27	2,180.53
GRAND TOTAL	3454	11,181,572.87	23,163,765.30	34,345,338.17	9,943.64 A

TARGET FOR AVERAGE COST PER CLAIM

7,500.00

A Exceeded the target for average cost per claim.

**AVERAGE COST PER EMPLOYEE INJURY CLAIM
FOR THE AGENCIES MONITORED BY RISK MANAGEMENT
FISCAL YEAR 2015**

AGENCY	CLAIMS	TOTAL PAID	TOTAL RESERVED	TOTAL INCURRED	AVG. COST PER CLAIM
COMPTROLLER	1	192.92	0.00	192.92	192.92
CONVENTION COMPLEX	12	20,646.72	23,272.33	43,919.05	3,659.92
COURTS: CIRCUIT COURT	5	3,953.20	10,018.26	13,971.46	2,794.29
DEPT OF TRANSPORTATION	374	684,767.72	1,110,062.84	1,794,830.56	4,799.01
DPW-BUREAU OF WATER/WASTEWATER	249	791,634.03	1,566,537.20	2,358,171.23	9,470.57 A
DPW-DIRECTOR OF PUBLIC WORKS	12	20,747.52	123,368.72	144,116.24	12,009.69 A
DPW-BUREAU OF SOLID WASTE	282	857,206.09	2,113,246.78	2,970,452.87	10,533.52 A
EMPLOYEES' RETIREMENT SYSTEM	1	353.23	0.00	353.23	353.23
ENOCH PRATT FREE LIBRARY	12	8,262.82	38,424.68	46,687.50	3,890.63
FINANCE	16	41,163.03	62,014.05	103,177.08	6,448.57
FIRE DEPARTMENT	427	3,116,675.75	5,062,174.82	8,178,850.57	19,154.22 A
GENERAL SERVICES	39	125,997.36	242,666.43	368,663.79	9,452.92 A
HEALTH	65	66,321.24	150,504.48	216,825.72	3,335.78
HOUSING AND COMMUNITY DEVELOPMENT	32	123,234.90	88,404.63	211,639.53	6,613.74
LAW	4	1,549.34	25,894.90	27,444.24	6,861.06
LIQUOR LICENSE BOARD	1	426.75	5,375.61	5,802.36	5,802.36
MAYOR-COUNCIL ON CRIMINAL JUSTICE	1	24.00	0.00	24.00	24.00
MAYOR-MISC MAYORALTY PROGRAMS	45	36,082.93	150,694.65	186,777.58	4,150.61
OFFICE OF CITY COUNCIL	2	1,474.38	45.77	1,520.15	760.08
OFFICE OF EMPLOYMENT DEVELOPMENT	8	10,463.26	63,109.87	73,573.13	9,196.64 A
POLICE DEPARTMENT	1136	5,201,045.30	11,400,587.60	16,601,632.90	14,614.11 A
POLICE/FIRE RETIREMENT SYSTEM	2	355.60	0.00	355.60	177.80
RECREATION AND PARKS	74	175,138.87	141,180.80	316,319.67	4,274.59
BALTIMORE CITY PUBLIC SCHOOL SYSTEM	758	1,910,167.09	3,255,066.46	5,165,233.55	6,814.29
SHERIFF	31	109,068.80	133,035.81	242,104.61	7,809.83 A
SOCIAL SERVICES	1	0.00	301.00	301.00	301.00
STATE'S ATTORNEY	5	22,909.67	76,108.56	99,018.23	19,803.65 A
GRAND TOTAL	3595	13,329,862.52	25,842,096.25	39,171,958.77	10,896.23 A

TARGET FOR AVERAGE COST PER CLAIM

7,000.00

A Exceeded the target for average cost per claim.

Appendix I

The Department of Finance's Response To the Performance Audit of Office of Risk Management for Employee Injuries



August 17, 2016

Robert L. McCarty, Jr., City Auditor
Department of Audits
City Hall, 100 N. Holliday Street
Baltimore, MD 21202

The Department of Finance (Finance) acknowledges the performance audit prepared by the Department of Audits in its audit of the Office of Risk Management for Employee Injuries (Risk Management). We view this audit as an opportunity to improve processes and to strengthen internal controls. Finance has the following responses to each of the individual findings contained in the audit report:

Policies and Procedures for Random Drug and Alcohol Testing

Finding #1

Risk Management did not meet its target for the number of random employee drug and alcohol tests performed during fiscal years 2014 and 2015.

Recommendation #1

We recommend that Risk Management develop procedures to follow-up on "no shows" by scheduling those employees for testing as soon as they return to work. We also recommend that Risk Management consider selecting more than 15 employees each day for drug or alcohol testing in order to compensate for the number of "no shows" and, thereby, increase the likelihood of meeting its established goals for the number of drug or alcohol tests actually performed.

Finance Response

Risk Management concurs with Recommendation #1, with modification.

The recommendation of "scheduling those no-show employees for testing as soon as they return to work" is an option that Risk Management disagrees with. The integrity of the random process would be voided if supervisors and employees were notified of the testing while the employee was on leave and then scheduled for testing upon return from leave. Random testing requires that

it be unannounced and occur upon notification. Scheduling tests for a later time would violate this provision. It is important to note that employees selected for testing remain in the random pool and may be re-tested if selected at any time.

Risk Management pulled 2,910 names for Commercial Driver License (CDL) random drug/alcohol testing in FY2014 and a total of 3,398 names in FY2015. Risk Management set the following targets (for drug/alcohol tests performed) for FY2014-15 and they were 2,900 and 2,700 respectively.

There are several reasons why this performance goal was not met even though the number of names pulled exceeded the target goal in both FY2014 and FY2015.

1. **Leave time-** The top 3 reasons for a missed random test in FY2016 were: Vacation, Regular Day Off and Sick/FMLA/Extended Sick Leave. In FY2016 this occurred 479 times.
2. **Left City Employment or No Longer Works for the Agency-** Transfers within the City or leaving City employment happens regularly. Upon notification Risk Management updates the database removing the employee from the random test database. In FY2016 this occurred 53 times.
3. **No Longer Required to Carry a CDL-** After the random test notice is delivered, it is not uncommon for Risk to be notified by the Agency that the employee is no longer required to carry a CDL license. When this occurs, Risk updates the database removing the employee from the random CDL test database. In FY2016 this occurred 17 times.

After a full consideration of the above factors impacting tests performed, Risk Management shall increase the number of random tests to enable us to reach our target. Details relating to the number of additional tests are detailed in our response to Finding #2.

Finding #2

Employees in non-CDL sensitive job classifications were not included in the data base used to select employees for random drug or alcohol testing.

Recommendation #2

We recommend that Risk Management continue to work with the Department of Human Resources (DHR) to identify all sensitive job classifications that, according to the City's Substance Abuse Control Policy, should be included in the population of employees to be selected for drug or alcohol testing.

Finance Response

Risk Management concurs with Recommendation #2.

Risk Management shall work with DHR to identify all sensitive job classes. Once the Sensitive Class list has been updated and approved, Risk Management shall implement the following procedure in consultation with the Mayor’s Office of Information Technology, the Department of Human Resources, Law and the Labor Commissioner.

1-4 Months

- Risk Management shall immediately request that MOIT open the random drug and/or alcohol testing to include all employees that have been issued a City Driving Permit (yellow card).
- Currently there are approximately 719 CDL and an additional 5,086 non-CDL city drivers. Risk shall begin testing 8 CDL drivers and 9 non-CDL drivers daily. This increase in testing would total 4,420 scheduled tests per year (17 per day; 85 per week). With an assumed 33% no-show rate this increase in scheduled tests should allow Risk to meet the annual performance goal.

4-7 Months

- DHR shall provide an updated sensitive classification list to Risk Management and MOIT.
- MOIT shall open the random test database to all employees in sensitive classifications. Risk Management shall pull names from the database for random testing.

Finding #3
Risk Management did not adequately monitor billings for random drug or alcohol tests.

Recommendation #3

We recommend that Risk Management regularly review the billings for drug or alcohol tests performed by the testing facility to ensure that the City is only billed for the specific drug or alcohol tests ordered and that tests for BCPSS employees are properly billed to the BCPSS and not the City. We also recommend that Risk Management review the billings for fiscal year 2014 and 2015 to determine whether there were any other overbillings and, if so, recover those overbilled amounts.

Finance Response

Risk Management concurs with Recommendation #3.

When an employee’s name is pulled for a random drug or alcohol test, the clinic is notified regarding which test is to be performed for that individual. It will typically be one or the other,

unless the employee is randomly pulled for both tests on the same day. This occurs infrequently, just 5 times in FY2016.

As a result of the findings by the Department of Audits, Risk Management and Mercy completed an audit of the Random Drug/Alcohol Testing Process during FY2014-15 and determined 344 additional tests were completed. As a result, Mercy reimbursed the City \$16,187.20 for the additional tests. Risk has begun a second review to determine if similar errors occurred in FY2013-14. This review will be completed by September 2016.

To prevent this issue from occurring in the future, Mercy has added a level of review where they now reconcile the City's Drug/Alcohol order with each invoice before it is submitted to the City. In addition, the Workers' Compensation Contract Administrator, in the Office of Risk Management shall also reconcile each invoice with the test order before approving the reimbursement.

Average Cost per Claim, Number of Claims Filed Per 100 Employees, and Amount of Accident Leave Paid

Finding #4

The average cost per claim for employee injuries, the number of claims filed per 100 employees, and the amount of accident leave paid exceeded the established performance measure targets for fiscal years 2014 and 2015.

Recommendation #4

We recommend that Risk Management focus its efforts, including proactive measures, on those Agencies, Departments, or Bureaus, including the Baltimore City Public School System, with the highest average cost per claim for employee injuries, the highest number of claims per 100 employees, and the highest amount of accident leave paid. In addition to the monthly meetings held with agency heads to discuss the types of losses incurred, and examining the causes of employee injuries reported and recommending applicable training, we recommend that Risk Management enhance its proactive measures, for example, by encouraging employee participation in periodic safety committees/teams to develop and implement safety initiatives, encouraging suggestions from employees to improve work safety habits and eliminate hazards before they occur, encouraging employees to report observations of unsafe working conditions or hazards including any near misses for which no claims were filed, and sharing lessons learned from accident investigations and any other observations with employees. We also recommend that Risk Management review the future performance measure targets to determine whether those targets require updating or revisions based on past actual amounts.

Finance Response

Risk Management concurs with Recommendation #4.

The Bureau of Risk Management & Occupational Safety strives to encourage and promote a safe and supportive work environment with the goal of preserving our workforce assets, both human

and physical throughout the City of Baltimore. To achieve this goal the Risk Management utilizes a number of proactive measures.

These measures include regular monitoring of risk management claims data to assess loss experience and develop and implement programs for safety and loss prevention. Risk Management acknowledges that we did not meet the goals related to average cost per claim, number of claims filed and the amount of accident leave paid. It is important to note that the impact of Workers' Compensation Law for public safety employees, rising costs of medical treatments and claims related to the civil unrest all contributed to the higher than expected claims experience. We agree to review our performance targets and will make adjustments as needed.

Details related to the number and costs of claims:

While the number of claims reported in FY2015 was 3,595, 179 of them were related to the Civil Unrest. If you remove these claims, there was actually a decrease in the number of claims reported ($3,595 - 179 = 3,416$ for FY2015 vs. 3,454 for FY2014). The unrest could not have been anticipated.

When evaluating the average cost per claim, in FY2015 there were 2 cases that drove the increase in average cost per claim. The total paid on these two claims was over \$1,000,000 and the reserve posted is over \$2,000,000. The largest claim in FY2014 had a paid amount of \$109,693 - if these claims are removed the average cost per claim is \$3,370. This represents a nominal 4% increase over FY2014's average cost per claim of \$3,237. Considering the industry average is between 9-12%, the City's performance (less the Civil Disturbance) is very acceptable.

Details related to accident leave:

FY2015 saw an increase of 13% in total dollars paid or approximately \$790,000. The Fire Department had an increase of over \$500,000 or 63% of the total. This increase was caused primarily by the severity of the injuries coupled with the Fire Department's limitation on return to work.

State Law allows an employer to pay an employee 66 2/3% of an employee's Average Weekly Wage (AWW) when it comes to wage loss when out on a work related injury. The Police contract allows for an employee to receive 85% of the employees gross pay and the Fire contract allows the injured employee to receive 100% of their pay. Even though the accident leave payments provided to the Department of Audits reflected 66 2/3% of an employee's AWW, Police and Fire actually pay their employees a higher amount due to their respective contracts. This removes much of the financial incentive for an employee to return to work.

The proactive tools that Risk uses include:

Risk Management suggests that there is currently a focus on those Agencies, Departments, or Bureaus, including the Baltimore City Public School System, with the highest average cost per claim for employee injuries.

Monthly Claim Reviews - Risk Management conducts monthly face-to-face claim reviews with those Agencies that are the significant drivers of our Workers' Compensation costs. The goal of the claim review is to evaluate those "problem" claims with the intent of returning the employee back to work as soon as possible.

Training Based on Emerging Trends – Risk Management reviews Agency claim data monthly to identify trends and develop training sessions to raise awareness to potential hazards. Our claim data is broken down by the "cause of loss" (injury from: a fall from elevation, from a motor vehicle accident, improper lifting, etc.). We use this data to determine exactly what activity is causing the increase in claims. We then focus our training on those specific areas (to reduce the number of claims/costs) within the Agency. Several years ago Risk Management noticed the BCFD had an increase in the number of claims related to ladder usage (lifting, falls from, etc.) and we developed a ladder safety class for the BCFD so we could retrain them on ladder safety (how to lift, how to place a ladder against a building, etc.). This was presented to all of their employees and now Risk offers the course once a year (more times if necessary) depending on need. Risk also sends out a monthly "Scorecard" to Agencies so they can see how their risk activities compare to the same time period in the previous fiscal year. This methodology helps us focus on reducing injuries and the resulting claims.

Our Citywide training programs include examples of preventative measures and alternative ways to work safely. For example, past training included safe lifting techniques, safe driving, ergonomics, etc.

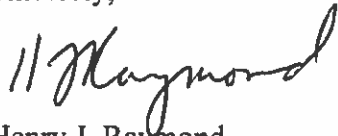
Additionally, in 2007 Risk Management in partnership with Key Risk (the city's Third Party Workers' Compensation Claims Administrator) established a Confidential Hotline (866-841-1044) for City employees to report unsafe activity. Risk Management is now working with Key Risk to expand the hotline to include reporting not only unsafe work practices but any risk related concerns. Risk Management shall assign a Safety Enforcement Officer to investigate reported unsafe work practices to determine if corrective action is needed. Risk will use findings from this process, along with existing methods to identify trends and implement corrective measures. We anticipate having this process in place by September, 2016.

In FY2017, Risk Management (through our various training classes, email blasts and monthly scorecard reporting notices to Agencies) will promote employee participation in implementing safety initiatives; encourage suggestions from employees to improve work safety habits and to report unsafe working conditions or hazards.

Finally, referring to the Auditor's concern for Risk Management's practice of reporting total incurred costs data occurring only during the fiscal year - such reporting is limited just for tabulating our budgeted performance measures. The data is calculated as of 6/30 of each fiscal year. Risk Management follows this practice because in our view it provides a more consistent comparison of fiscal year data. Otherwise, our historical reporting would continue to change without a clear break point with which to provide a timely and meaningful comparison. For all other Risk Management purposes the Auditor's recommended cumulative historical update is used, to include premium billing for the BCPSS for its share of claims.

In closing, the Department of Finance appreciates this opportunity to address the audit findings and to implement changes to enhance the efficiency and effectiveness of operations.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Raymond". The signature is written in a cursive, flowing style.

Henry J. Raymond
Director

CC: Stephen M. Kraus
Douglas S. Kerr
Jacqueline McCullough
Yoanna Moises

Appendix II

Auditor's Comments on Agency's Response

**AUDITOR'S COMMENTS ON
THE DEPARTMENT OF FINANCE'S RESPONSE
TO THE PERFORMANCE AUDIT OF
OFFICE OF RISK MANAGEMENT FOR EMPLOYEE INJURIES**

The response of the Department of Finance (Finance) to our performance audit is included in Appendix I of this report. According to its response, Finance concurs with the audit recommendations, except for Finding #1, in which it concurs but with modification. Our comments regarding Finance's response to Finding #1 are included below.

Policies and Procedures for Random Drug and Alcohol Testing

In response to Finding #1, Finance disagreed with our recommendation to follow-up on employees who did not show up ("no-shows") for drug and alcohol testing by scheduling those employees for testing as soon as they return to work because the integrity of the random process would be voided. Those employees were initially selected randomly for testing, and we believe that testing those employees without notice as soon as they return to work would be a better alternative than waiting until their names are again randomly selected, especially since the population for random drug and alcohol testing is expected to increase substantially when Risk Management complies with the requirements contained in the City's Substance Abuse Control Policy.

As part of our related Finding #2, we recommended that, as required by the City's Substance Abuse Control Policy, Risk Management should include all employees in sensitive job classifications in the population of employees to be selected for drug or alcohol testing. According to Finance's response to Finding #2, currently there are an additional 5,086 non-CDL City drivers. It should be noted, however, that sensitive job classifications are not limited to the classes that are listed in Appendix B of the City's Substance Abuse Control Policy and include classes that have a substantially significant degree of responsibility for the safety of others and/or a potential in which impaired performance of the employee could result in death of, or injury to, the employee or others.