



# Audit Report

Office of Internal Audit

## Public Health and Wellness

Board of Health  
Self Insurance Trust Fund

October 2007



Public Health and Wellness

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Board of Health  
Self Insurance Trust Fund

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OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

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**Transmittal Letter**

RICK BLACKWELL  
PRESIDENT METRO COUNCIL

October 3, 2007

The Honorable Jerry E. Abramson  
Mayor of Louisville Metro  
Louisville Metro Hall  
Louisville, KY 40202

**Subject: Audit of Board of Health's Self Insurance Trust Fund**

**Introduction**

A review of the operating records and procedures of the Louisville Metro Board of Health's Self Insurance Trust Fund was performed. The primary focus of the review was the operational and fiscal administration of the activity. This included how fund activity is recorded, processed and monitored. The objective of the review was to obtain assurance that the risks were adequately mitigated through the internal control structure for the fund.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

### Scope

A thorough understanding of operations was obtained in order to evaluate the internal control structure of the Self Insurance Trust Fund. This was achieved through interviews with key Public Health and Wellness (PHW) personnel.

The operating policies, procedures and records for the fund were reviewed. The primary focus of the review was the operational and fiscal administration of the activity. This included how the activity was processed, recorded and monitored. The review focused on information recorded in the Trust Agreement and Trustee financial report. The period reviewed was July 1, 2006 through June 30, 2007.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The review would not reveal all issues because it was based on selective review of data.

### Opinion

It is our opinion that the administration of the Board of Health Self Insurance Trust Fund is satisfactory. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Examples of these include the following.

- **Monitoring and Reconciliation.** Trust Fund financial activity is not reported on the Metro financial system and it is uncertain as to whether a documented reconciliation is performed. Lack of reconciling the Trust Fund financial statements could result in unauthorized activity and potential errors not being detected in a timely manner. Additionally, this weakens the reliability of financial statements as monitoring tools.
- **Metro Finance Oversight.** Self Insurance Trust Fund activity is not routinely reported to Metro Finance. PHW is uncertain as to whether the Self Insurance Trust Fund account information needs to be provided to Metro Finance for reporting and monitoring purposes.
- **Actuary Services.** Actuary services may not be performed timely. The latest actuary forecast issued in April 2005 was coordinated through Metro Finance's Risk Management office. The report was for the period ending June 30, 2006. The Trust

Agreement requires the Board of Health to annually pay into the trust an amount determined by an independent actuary and approved by the Board of Health. Not obtaining a routine independent actuary report could result in non-compliance with funding requirements for the Trust.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of the Board of Health Self Insurance Trust Fund.

**Corrective Action Plan**

Representatives from Louisville Metro Public Health and Wellness have reviewed the results and are committed to addressing the issues noted. PHW corrective action plans are included in the Observations and Recommendations section of this report. We will continue to work with Public Health and Wellness to ensure the actions taken are effective to address the issues noted.

Sincerely,

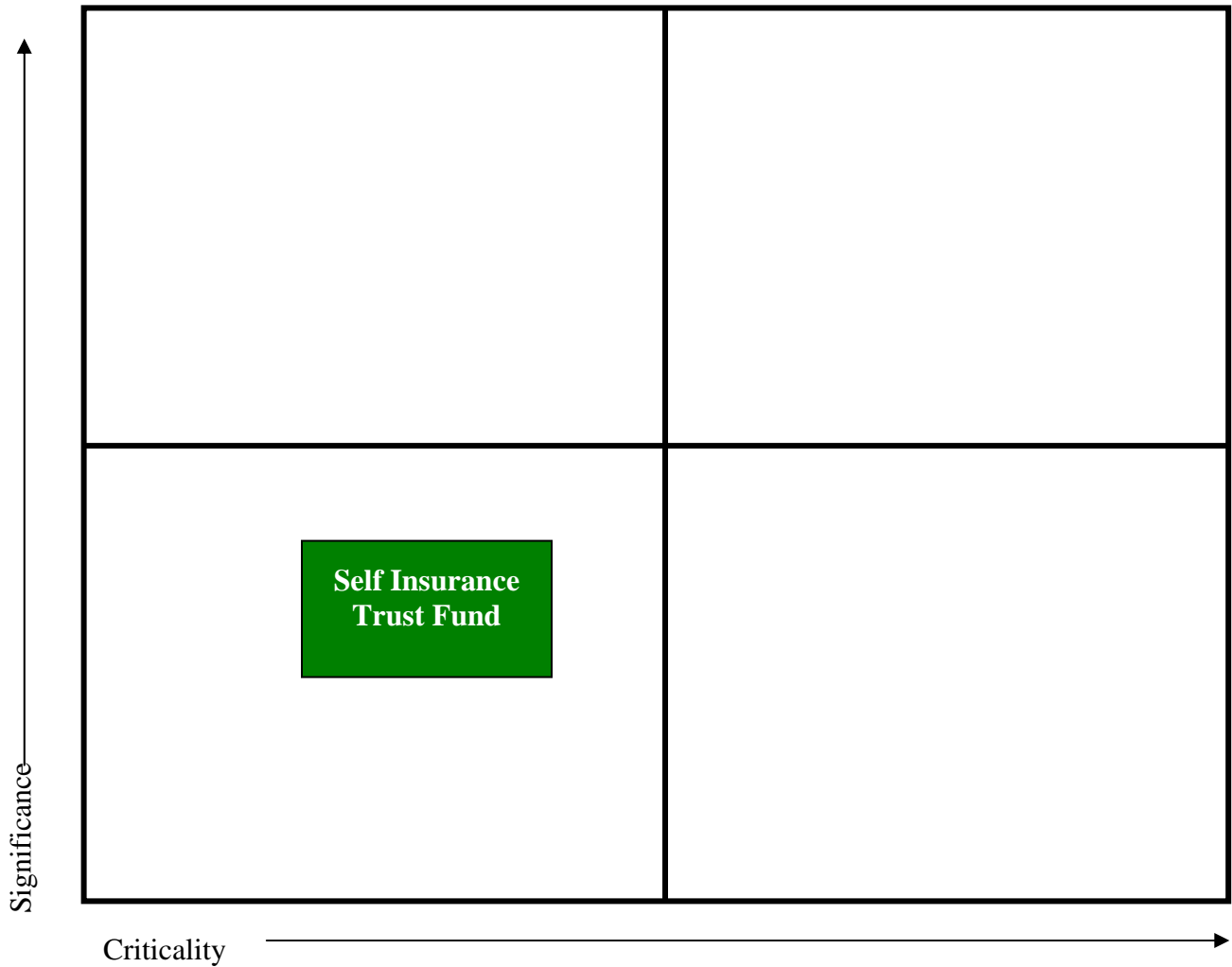


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Michael S. Norman, CIA, CFE, CGAP  
Chief Audit Executive

cc: Louisville Metro Council Audit Committee  
Louisville Metro Council Members  
Deputy Mayors  
Louisville Metro Public Health and Wellness Director  
Louisville Metro Board of Health  
Louisville Metro's External Auditors

**Internal Control Rating**



<u>Legend</u>			
<u>Criteria Issues</u>	<u>Satisfactory</u> Not likely to impact operations.	<u>Weak</u> Impact on operations likely contained.	<u>Inadequate</u> Impact on operations likely widespread or compounding.
<b>Controls</b>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b>Policy Compliance</b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b>Image</b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b>Corrective Action</b>	May be necessary.	Prompt.	Immediate.

## **Background**

Public Health and Wellness is a Metro department established to protect and promote the health, environment and well being of the people of Louisville. This is accomplished by providing health-related programs and health office locations community wide. An eight member Board of Health is appointed by the Mayor in accordance with Kentucky Revised Statute chapter 212. The Board provides advice, guidance and citizen input to Public Health and Wellness.

The Self Insurance Trust Fund exists to provide for the legal defense against any covered claim made against the Louisville Metro Board of Health, Public Health and Wellness, and Family Health Centers, Inc. This includes employees or agents (e.g., physicians, nurses) of the aforementioned organizations, excluding any agents from the University of Louisville. Furthermore, the Trust Fund is to provide for the payment of any settlement or final judgment entered against these organizations for any such covered claim in an amount not to exceed \$1,000,000 for any one occurrence and \$1,000,000 in the aggregate during the fiscal year. The Louisville Metro Board of Health entered into a Trust Agreement with a Trustee in April 2005. This agreement amended an earlier version of an agreement. The Trustee is responsible for administering disbursements and revenues, along with managing investments in accordance with the agreement under the oversight of the Board of Health.

As of June 30, 2007, the total value of the Trust Fund with accrued income was \$1,679,595. The fund may decrease due to various claims and payments (e.g., legal fees). The Trust Agreement requires the Board of Health to annually pay into the trust an amount determined by an independent actuary and approved by the Board of Health. Public Health and Wellness staff explained that investment activity historically has been sufficient to replenish the account.

This was a scheduled audit.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit has not previously conducted any reviews of the Louisville Metro Board of Health's Self Insurance Trust Fund.

### **III. Statement of Auditing Standards**

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **IV. Statement of Internal Control**

A formal study of the internal control structure was conducted in order to obtain a sufficient understanding to support the final opinion.

### **V. Statement of Irregularities, Illegal Acts, and Other Noncompliance**

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

### **VI. Views of Responsible Officials / Action Plan**

A draft report was issued to Public Health and Wellness on September 5, 2007. An exit conference was held at the Office of Internal Audit administrative office on September 13, 2007. Attending were Jackie Richardson and Ken Kring representing PHW; Mike Norman and Mark Doran representing Internal Audit. Final audit results were discussed.

The views of PHW officials were received on October 2, 2007 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or **no longer than** 30 days of receipt of the draft report.”*

PHW’s response was provided within this required timeframe.

## Observations and Recommendations

### Scope

The procedures for administering the Board of Health Self Insurance Trust Fund were reviewed. The focus of the review was the operational and fiscal administration of the Fund activity. This included how activity was processed, recorded, and monitored. Applicable personnel from Metro Public Health and Wellness were interviewed in order to gain a thorough understanding of the processes. The review was performed using the following information.

- **Trust Agreement.** The Trust Agreement was reviewed to gain an understanding of the administration of Fund activity. This included the management of disbursements and funding activity.
- **Trust Fund Financial Report.** The Trust Fund financial report for the period July 1, 2006 through June 30, 2007 was reviewed. This report was prepared by the Trustee and listed transactions for the period. The purpose was to assess the controls associated with managing fund activity, along with compliance with applicable guidelines.
- **Actuary Forecast.** An actuary forecast for the period July 1, 2005 through June 30, 2006 was obtained. This report was prepared by an independent actuary. The report included cost information for the possible inclusion of the Self Insurance Trust Fund with the local government insurance fund administered internally.
- **Disbursement Examination.** A sample of disbursements was selected from the population of activity recorded on the Trust Fund financial report. The review consisted of examining a sample of disbursements along with the supporting documentation to verify payments made were actually billed and appropriately approved by the Board of Health.

The review would not reveal all issues because it was based on selective review of data. The following issues were noted.

### Observations

The overall internal control structure of the Board of Health's Self Insurance Trust Fund is satisfactory. However, some opportunities were noted to improve the controls. The opportunities are as follows.

- #1 Monitoring and Reconciliation
- #2 Metro Finance Oversight
- #3 Actuary Services

Details of these begin on the following page.

## **#1 – Monitoring and Reconciliation**

Trust Fund financial activity is not reported on the Metro financial system and it is uncertain as to whether a documented reconciliation is performed. The Trustee provides routine financial reports to PHW staff, who forward them to the Board of Health. Metro staff does not perform a reconciliation of the fund and are not aware of any formal reconciliation being prepared by the Board. Lack of reconciling the Trust Fund financial statements could result in unauthorized activity and potential errors not being detected in a timely manner. Additionally, this weakens the reliability of financial statements as monitoring tools.

### **Recommendations**

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ A determination needs to be made as to Metro's level of responsibility regarding the monitoring and reporting of Trust Fund activity. While the Board of Health is an entity established in accordance with State statute, ultimately Metro Government could be responsible for funding required contributions on behalf of the Board of Health. Measures should be taken to ensure the risks to Metro Government are adequately mitigated.
- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative the statements are reviewed on a regular basis. This includes reviewing individual transactions for appropriateness, completeness and adherence to requirements, along with monitoring of the Trust Fund financial statements to ensure the accurate and timely reflection of activity. The determination should be made as to whether the Board of Health, Public Health and Wellness or Metro Finance should perform the reconciliation.
- ✓ A formal, documented reconciliation process should be implemented. The periodic financial statements for the Self Insurance Trust Fund should be compared to source documentation (e.g., legal bills, settlement payments). In addition, all transactions should be monitored to ensure compliance with the Trust Agreement. This helps ensure the transactions were processed as intended. Furthermore, this helps strengthen the reliability of the Trust Fund financial statements.

### **Public Health and Wellness' Corrective Action Plan**

We are in agreement that the nature of the findings are satisfactory, not likely to impact operations, that the controls in place are effective, that non compliance issues are minor, and that the image has no, or low levels of risk.

All recommendations have been reviewed. We will be working with the County Attorney's Office and the Finance Department in the future to determine the Metro's responsibility regarding reporting and monitoring.

We will be reconciling and monitoring the account on a quarterly basis in the future. The account was monitored in the past, but there was no clear evidence reported in the minutes of the Board meetings, or in Committee meetings. We will set up a reconciliation process and report to the Finance Committee on a quarterly basis. Someone from the Business Office staff of the Department of Public Health and Wellness will be assigned that task. The process will be formalized.

## **#2 – Metro Finance Oversight**

Self Insurance Trust Fund activity is not routinely reported to Metro Finance. Public Health and Wellness personnel are uncertain as to whether the Self Insurance Trust Fund account information needs to be provided to Metro Finance for reporting and monitoring purposes. This includes the following.

- **Financial Reporting.** Fund information may not be provided for reporting in order to comply with accounting requirements. For example, PHW staff has not consulted with Metro Finance to determine the appropriateness of Trust Fund inclusion in Metro Government's Comprehensive Annual Financial Report.
- **Monitoring.** Metro Finance does not provide any monitoring for the Self Insurance Trust Fund. Fiscal activity is not recorded on the Metro financial system and Trust Fund financial statements are not reviewed by Metro Finance. Since the Board of Health is responsible for the Trust Fund, it's not clear whether Metro's cash management policies and procedures apply. Depending on Metro's level of responsibility, this could result in inadequate oversight of the Trust Fund and reporting of activity for the ancillary account.

## **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Public Health and Wellness should consult with Metro Finance to determine the extent to which the Trust Fund activity should be reported. This includes financial reporting and monitoring.

## **Public Health and Wellness' Corrective Action Plan**

We have consulted with the Finance Department in the past concerning reporting requirements. Per Metro Finance's General Accounting division, PHW will submit the annual fund statement to Metro Finance.

### **#3 – Actuary Services**

Actuary services may not be performed timely. The latest actuary forecast issued in April 2005 was coordinated through Metro Finance's Risk Management office. The report was for the period ending June 30, 2006. The Trust Agreement requires the Board of Health to annually pay into the trust an amount determined by an independent actuary and approved by the Board of Health. Not obtaining a routine independent actuary report could result in non-compliance with funding requirements for the Trust.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Public Health and Wellness should consult with the Board of Health to ensure actuary reports are obtained in accordance with the Trust Agreement requirements. If necessary, Public Health and Wellness should contact Metro's Risk Management division for assistance.
- ✓ Legal counsel should be consulted as necessary in order to ensure compliance with the Trust Agreement.

### **Public Health and Wellness' Corrective Action Plan**

The Finance Committee of the Board of Health has agreed to have an actuary service performed in the near future. They have also agreed to look at possibly changing the language in the self insurance trust agreement to indicate that an actuary study may not be required annually, due to the cost of such services and the adequate balance of the trust fund.