

Reportable Conditions in Internal Control over Financial Reporting**I. Management of Disability Compensation Program**

The District, through the Office of Risk Management (ORM), administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978. The most recent actuarial loss reserve analysis was performed in fiscal year 2002. For fiscal years 2003 and 2004, ORM has performed roll-forward procedures, using underlying assumptions included in the last actuarial report, in order to estimate the District's disability compensation liability at each year-end. We recommended that an actuarial analysis be performed for fiscal year 2004, however this recommendation was not implemented. We believe that the use of data that is more than one year old as a basis for these roll-forwards could lead to significant differences between the estimated liability and actual results for individual cases when complete data is available. Further, the accuracy of the underlying data used in the District's analysis has always been difficult to assess due to weaknesses in the maintenance of supporting claims files.

The ORM does not perform a timely review of past claims to determine whether the established reserves remain sufficient. In addition, we determined through claims test work that certain reserves were not removed timely from the tracking system, once a claim is determined to be closed. These conditions increase the risk that the underlying data, which is utilized for the District's roll-forward procedures, may be over- or understated. Additionally, seven out of 81 disability claim case files selected for test work could not be located for our review, and many of those that were provided for our review required extraordinary effort on the part of ORM personnel to locate. This is a similar result as noted in prior years.

We again recommend that ORM contract for an actuarial loss reserve analysis to be performed during fiscal year 2005, and each year thereafter. Additionally, we recommend that ORM:

- Review all active claim files on a periodic basis to determine if the recorded reserve is sufficient or if the reserve needs to be increased or decreased. The review of all active claim files is imperative before each actuarial analysis is performed, since an actuary would be utilizing such information in their analysis.
- Develop an effective managerial system to file and maintain both open and closed case files.

Management Response

ORM has requested monies for an actuarial report in its current budget. It is expected that the actuarial report will take place within the next fiscal year.

All Disability Compensation Program (DCP) files, both active and archived, were housed by the Third Party Administrator (TPA), CLW/CDM, Inc. in fiscal year 2004. CLW/CDM was responsible for maintaining all supporting documentation in each claim file. ORM acquired these files at the conclusion of the contract between the city and CLW/CDM in November 2004. The contract expired pursuant to court order on Friday, October 29, 2004. The archived files were subsequently moved and placed in storage at the District of Columbia General Hospital (DCGH). The active files were moved to 441 4th Street, NW, Suite 800 South. It is assumed that all files were turned over to ORM; however, at this time, it is difficult to verify this assumption. In addition, a number of active claim files were erroneously placed in storage when they should have been forwarded directly to ORM.

Reportable Conditions in Internal Control over Financial Reporting

The Claims Supervisor of CLW/CDM, Inc. was charged with performing timely reviews of the adjusters' decisions establishing reserves. ORM was responsible for conducting periodic reviews of randomly selected claim files to determine if appropriate reserves had been established and/or removed. The previous database system did not allow ORM access to all of the data maintained by CLW/CDM with regard to this aspect of the claims. With the movement of the Third Party Administrator in-house, and obtaining its own Riskmaster database, ORM now has the ability to easily determine whether established reserves are sufficient.

ORM has entered into a contract for services, which entails capturing basic information on all claim files currently in storage into an Excel spreadsheet. This electronic database will allow ORM to effectively manage its closed case files. The new Riskmaster system, which went into operation in November 2004, will allow ORM to effectively manage all open claims files, and those, which are subsequently closed.

ORM expects to hire additional staff to provide more hands on file/reserve reviews and to conduct periodic audits.

II. Unemployment Compensation Claimant File Management

The District's Department of Employment Services (DOES) is responsible for the administration of the Unemployment Compensation Program. In fiscal year 2004, the District made approximately \$114 million in unemployment benefit payments to unemployed former employees of private employers in the District and of the District and federal governments.

While testing internal controls over benefit payments, we observed that DOES was unable to locate 8 out of 30 claimant files supporting these payments. Federal regulations require that DOES maintain documentation supporting all payments of unemployment claims. We noted that DOES has established policies and procedures requiring such documentation be maintained. However, DOES has not created a system of tracking the location of all claimant files and requiring such files to be checked in and out by DOES personnel using the files. We recommend that DOES create a database tracking the location of all claimant files and require that this database be updated each time a file is moved to a new location.

Management Response

Management concurs with the finding. If funding is available, DOES will implement an imaging and retrieval system for Unemployment Insurance documents. A pilot project is to commence within the next three months for imaging and indexing quarterly contribution reports. The imaging will be done by the contractor who currently enters data from these reports.