



Wicomico County, Maryland

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Internal Auditor's Report

The County Council and County Executive of Wicomico County, Maryland:

The Office of the Internal Auditor (IA) has conducted an audit of Wicomico County risk management. The Human Resources Department governs risk management for Wicomico County¹. The county has a risk manager responsible for improving the loss rate due to various risks including, but not limited to, insurance claims and safety.

The attached document was created for the County Executive, and the County Council to assist in their understanding and evaluation of the risk management system.

Respectfully submitted,

J. Stephen Roser, CPA
Internal Auditor

¹ During the audit, the county risk manager transferred from Purchasing to Human Resources and serves in the capacity of Assistant Human Resources Director. He will remain in a dual role and continue as risk manager. Please see management response from the Assistant Director in the findings section.

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Audit Report

Background

The Risk Management Audit is an exercise with a twofold purpose. As you may recall, we developed the original Risk Management Audit at a time when the county governing structure for risk management was quite different than it is today. IA modified the audit scope and objectives on numerous occasions as the structure evolved. We feel that the current structure provides the proper assessment of county risk management as it exists today. Ancillary to the risk management assessment, and included in a later report, is a questionnaire upon which IA will build the FY2013 Annual Audit Plan.

Objectives

The objectives of the audit are to insure:

1. Management is aware of all the relevant commercial and operational risks
2. An effective risk management strategy is defined, authorized, and implemented in order to counteract, avoid, and minimize applicable risks
3. Business operations and financial success of the organization are neither disrupted nor adversely affected by disasters and problems
4. Contingency arrangements are tested to confirm their effectiveness and relevance
5. Adequate and cost effective insurance cover is provided and insurance costs are minimized
6. Insurance claims are made whenever relevant, and duly settled

Scope

This engagement is an audit with primary focus on understanding the Risk Management System. The scope is otherwise open ended. Observations and Inquiries with appropriate personnel were conducted, as well as examination of various documents:

- Consult with county risk manager to determine the progress of the risk initiative
- Insurance policies in force for Wicomico County
- Procurement standards for insurance policies
- Disaster recovery plans
- Safety manuals
- Claims
- Lawsuits
- Interview insurance agents
- Safety training resources available to the county

Overview

Commercial vs. Operational Risk

For most applications, risk is divided into two general categories: commercial and operational. Commercial risk is defined as risk seller assumes when extending credit², offering credit with no collateral³, and risk that foreign debtor will be unable to pay its debts because of business events⁴. We define operational risk as the risk remaining after determining financing and systematic risk. This includes risk of loss resulting from inadequate or failed internal processes, people, systems, controls⁵, or external events⁶.

IA is of the opinion that commercial risk, as a concept, does not lend itself to this analysis of the risk structure in our county government. This is especially true because the scope and procedures are related primarily to operational rather than financial risks. Additionally, the county's external auditors determine if the financial statements are fairly stated. We will therefore concentrate on the operational risks for Wicomico County.

County Risk Management Strategy

Strategy for risk management is threefold: creation a safety manual, expressed vision for the future of risk management, and training including materials available from various insurance vendors and elsewhere. County strategy also includes the creation of a Risk Management Safety Committee comprised of representatives from every department. The committee functions to share ideas, other information, educate, and coordinate safety throughout the county.

Wicomico County Risk Management and Safety Manual

The county risk manager is in the process of creating a new safety manual. The draft manual is a forty-one page document containing twenty chapters. It defines the objectives, scope, and responsibilities for safety and its application for all employees. The manual calls for a culture of safety for Wicomico County and for training as part of all county meetings. Additionally the risk and safety manual:

- Is updated annually
- Links to Chapter 3, §2406(b)(1) of personnel manual⁷
- Establishes risk managers and corresponding duties for all departments
- Provides an outline for department safety meetings
- Establishes at least one formal risk manager inspection with each department head annually
- Defines procedures and sets priorities for accident reporting, investigation, and record keeping
- Defines specific workplace safety (office, labor, equipment operators, vehicle, etc.)
- Establishes a vehicle accident review board and defines responsibilities
- Contains exposure control plan that reinforces OSHA standards

² [Finance Dictionary.com](http://finance-dictionary.com/definition/c/commercial-risk/); <http://finance-dictionary.com/definition/c/commercial-risk/>

³ [WikiCFO.com](http://www.wikicfo.com/Wiki/Search.aspx?Query=commercial%20risk); <http://www.wikicfo.com/Wiki/Search.aspx?Query=commercial%20risk>

⁴ [Finance-Library.com](http://www.finance-lib.com/financial-term-commercial-risk.html); <http://www.finance-lib.com/financial-term-commercial-risk.html>

⁵ [QFINANCE – The ultimate Resource](http://www.qfinance.com/home) – The Ultimate Resource, © 2009 Bloomsbury Information Ltd.; <http://www.qfinance.com/home>

⁶ [The Basel Committee \(2004\)](http://www.riskglossary.com/link/operational_risk.htm); http://www.riskglossary.com/link/operational_risk.htm

⁷ §2106 of the county Personnel Manual mandates the reporting of injuries

Several chapters remain to be written⁸:

- o Protection of the general public
- o Drugs/alcohol
- o Firearms
- o Rules enforcement
- o Disciplinary action
- o Fire prevention
- o Flammables
- o Emergency response plans
- o Cold weather guidelines
- o Heat stress management
- o Safety recognition program

Risk Management Safety Committee and Safety Resources

IA attended a risk management safety committee meeting held January 25, 2012. The meeting was planned, organized, and well received by participants. Some items under discussion were:

- Safety resources
- Safety bulletins
- Claims
- Safety Inspections
- Worker compensation
- Injuries

The risk manager announced safety inspections for each department and emphasized a proactive rather than a reactive approach to county risk management. A top-down value-based safety culture concept was explained. Additionally, the risk manager invited a representative from Injured Workers Insurance Fund (IWIF) who spoke on safety as related to an accident review subcommittee concept, wellness concept, and accident review as a learning process.

The county risk manager implemented a program called "Wicomico County Safety University". Safety management awards points for attending various approved training programs. Employees are then awarded certificates reflecting their level of achievement. Other safety resources available to the county include:

- CD/DVD classroom and safety briefing library
- IWIF checklist - brochure
- Procedure to report injury, vehicle accident, or industrial accident reference
- New hire orientation
- Weekly executive reports
- After action briefings
- Safety Inspection checklist - survey

⁸ As of March 1, 2012

The Future of Risk Management

County risk management developed a strategic action plan for 2012. IA reviewed the written plan and it appears comprehensive and well written. The plan provides:

- A clearly defined county risk management program
- A proactive approach to safety
- Improved communications
- Improved IWIF claims reporting process with fire departments
- A team approach in establishing procedures for periodic inspections to identify hazards
- Reduction of the county's liability and minimization of reoccurring accidents
- An annual safety survey
- Improved emergency responses
- Claims checklists
- On-site training
- Defensive driving training
- Vehicle accident review board

Findings

Contingency Arrangements

Contingency arrangements for the county departments revolve around emergency response procedures (ERP). The risk manager's office contains binders with some information for the various departments. Most of the binders are not complete as this is a work in process.

Insurance

IA reviewed insurance policies in force for the county. There are a dozen policies currently in effect:

1. Worker's Compensation
2. Crime (Fraud)
3. Liability – Ferries
4. Liability – Airport
5. Liability – Nursing Home
6. Liability – Nursing Home Commercial Excess
7. Commercial Auto
8. Umbrella
9. General Liability
10. Employee Benefits Liability
11. Property – Real and Personal
12. Property – Equipment

A matrix of all policies including limits, premiums, and deductibles appears in Appendix A. All policies are represented by a local insurance agency. IA held an interview with the agency. In attendance were the commercial account manager, senior claims specialist, and the company assistant vice president. The agents indicated that, in the past, Wicomico Human Resources was mainly concerned with worker's compensation processing. Additionally, prior risk managers focused primarily on property issues. Other concerns involved timing issues and focus on coverage direction. Timing is important because it is better to inform the insurance claims

specialist of any potential claims as soon as the county becomes aware of them. This allows the maximum ability to gather information thereby controlling losses. Coverage direction means that Wicomico should focus more on certification *from* vendors not certification from the county *to* vendors. All agents made it very clear that recently the risk management focus is more balanced and the aforementioned problems are not as serious as they were in the past.

Claims and Litigation

County external auditors, as part of the annual audit of the financial statements, require a statement from the Law Department concerning claims and lawsuits. IA reviewed the statement from the Department of Law to county external auditors concerning claims on the books for the fiscal year ending June 30, 2011. Additionally, the Law Department provided IA with a list of claims and lawsuits occurring after the cutoff date of the report to the external auditors. Materiality threshold for the occurrences are \$15,000.00 individually and collectively. This office will use the information gathered to establish a baseline and monitor claims and lawsuits going forward.

Recommendations

Safety Manual

The Safety Manual should be completed as soon as possible and distributed to departments. It seems extremely comprehensive and fluid and IA makes no recommendations for further enhancement at this time.

MUNIS

In conversation with some county associates and the risk manager IA understands that some tools in the county accounting software (MUNIS) exist to assist in controlling risk. As time allows, we recommend that the county make use of the tracking abilities and other features in MUNIS to automate procedures, track incidents, link documents, etc. in an effort to enhance controls over county risk.

Disaster Recovery

As mentioned earlier, the creation and updating of emergency response plans (ERP) for the county departments is a work in progress. IA reviewed the records accumulated by the risk manager. Most departments have an ERP, but most are in serious need of an update. Our recent earthquake is a prime example of the need to enhance and improve county ERPs. IA recommends that the work on the ERPs continue as a priority matter.

Human Resources

As mentioned in footnote 1, the county risk manager has accepted additional duties in the Human Resources Department (HR). HR and risk management are compatible. Indeed, some members of the county community expressed the opinion that risk management belongs in HR as opposed to purchasing. The county must assure that risk management continues the initiative to improve risk management in Wicomico County. IA held a follow-up interview with the risk manager to express concern that his increased duties may negatively affect the initiative. IA is convinced that the risk manager will continue the work started at a robust pace and will continue to monitor the progress.

Management Response

As previously discussed, the position of risk manager can easily be completed from my new position. Prior to my new position, I created a solid foundation so most of my work is maintenance of and daily operations. The position is better suited within HR and I have no doubt about accomplishing the job. Additionally, the position moving with me is a cost savings factor.

Conclusion

Based on evidence gathered, and interviews performed pursuant to the Risk Management Audit, IA is of the opinion that risk management for Wicomico County is presently at a satisfactory level. County Management, however, must continue the initiative for improving risk management in order for it to remain so. Much work remains to be done in the areas recommended. IA plans to monitor the progress and stands ready to assist in an advisory capacity.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from Purchasing Department and Administration for their timely cooperation and assistance during the project. Special thanks go to David Inkrote for his diligence in explaining and demonstrating the risk initiative project.

Appendix A - Wicomico County Insurance Policy Matrix

General Type	Insurance Company	Specific Type	Premium	Policy Limit	Optional Coverages/Detail	Limit	Deductible
Worker's Comp	IWIF	Worker's Comp	\$ 936,323	\$ 5,000,000	Each Accident	\$ 100,000	None
Worker's Comp	IWIF	Worker's Comp			Each Employee	\$ 100,000	
Worker's Comp	IWIF	Worker's Comp			Aggegrate Disease Injury	\$ 500,000	
Worker's Comp	IWIF	Worker's Comp			Discounts	\$ (597,310)	
Crime	Travelers	Fidelity	\$ 13,928	\$ 500,000			\$ 50,000
Crime	Travelers	Forgery		\$ 100,000			\$ 15,000
Crime	Travelers	On Premises		\$ 130,000			\$ 15,000
Crime	Travelers	Computer Fraud		\$ 500,000			\$ 25,000
Crime	Travelers	Claim Expense		\$ 5,000			\$ -
Liability	Travelers	Ferry Hull	\$ 11,400	\$ 380,000			\$ 2,500
Liability	Travelers	Ferry P&I	\$ 3,000	\$ 1,000,000			\$ 1,000
Liability	Ace Property & Casulty	Airport Liability	\$ 16,110	\$ 25,000,000	Fire - any one fire	\$ 100,000	\$ -
Liability	Ace Property & Casulty	Airport Liability			Hangerkeepers per occurrence	\$ 1,000,000	\$ 1,000
Liability	Ace Property & Casulty	Airport Liability			Hangerkeepers any one aircraft	\$ 500,000	\$ 1,000
Liability	Columbia Casulty	Nursing Home GL	\$ 50,202	\$ 3,000,000	Each Claim	\$ 1,000,000	\$ 1,000
Liability	Columbia Casulty	Nursing Home GL			Nursing Home Personal	\$ 1,000,000	\$ 1,000
Liability	Columbia Casulty	Nursing Home GL			N. H. Rented Property	\$ 100,000	
Liability	Columbia Casulty	Nursing Home GL			N. H. Legal Media	\$ 50,000	
Liability	Columbia Casulty	N. H. Commercial Excess	\$ 13,017	\$ 1,000,000			\$ -
Commercial Auto	Phoenix	Commercial Auto	\$ 137,643	\$ 1,000,000	Each Person	\$ 200,000	\$500/\$2500
Commercial Auto	Phoenix	Commercial Auto			Each Accident	\$ 500,000	
Umbrella	Phoenix	Umbrella	\$ 41,129	\$ 5,000,000			\$ 10,000
Liability	Phoenix	General Aggregate	\$ 171,617	\$ 2,000,000			\$ 5,000
Liability	Phoenix	Completed Operations		\$ 2,000,000			
Liability	Phoenix	Personal Injury		\$ 1,000,000	Each Occurance	\$ 1,000,000	
Liability	Phoenix	Damage to Rented Prop		\$ 500,000			
Liability	Phoenix	Liquor Liability		\$ 1,000,000			
Liability	Phoenix	Law Enforcement		\$ 1,000,000	Each Wrongful Act	\$ 1,000,000	\$ 5,000
Liability	Phoenix	Public Entity Management		\$ 2,000,000	Each Wrongful Act	\$ 1,000,000	\$ 5,000
Liability	Phoenix	Public Entity Employment		\$ 4,000,000	Each Wrongful Act	\$ 2,000,000	\$ 25,000
Liability	Phoenix	Employee Benefits	\$ 119,509	\$ 3,000,000	Each Employee Limit	\$ 1,000,000	\$ 1,000

General Type	Insurance Company	Specific Type	Premium	Policy Limit	Optional Coverages/Detail	Limit	Deductible
Property	Travelers	Real/Personal	\$ 218,500	\$ 134,760,769			\$ 25,000
Property	Travelers	Real/Personal			Personal Property	\$ 50,000	
Property	Travelers	Real/Personal			Accounts Receivable	\$ 100,000	
Property	Travelers	Real/Personal			Apprutenant Structures	\$ 100,000	
Property	Travelers	Real/Personal			Claim Data Expense	\$ 25,000	
Property	Travelers	Real/Personal			Debris Removal (addt'l limit)	\$ 250,000	
Property	Travelers	Real/Personal			Expediting Expense	\$ 25,000	
Property	Travelers	Real/Personal			Extra Expense	\$ 10,000	
Property	Travelers	Real/Personal			Fine Arts	\$ 50,000	
Property	Travelers	Real/Personal			Newly Constructed Building	\$ 2,000,000	
Property	Travelers	Real/Personal			Newly Constructed Personal	\$ 1,000,000	
Property	Travelers	Real/Personal			Ordinance or Law	\$ 250,000	
Property	Travelers	Real/Personal			Outdoor Property	\$ 50,000	
Property	Travelers	Real/Personal			Overseas Travel PP	\$ 25,000	
Property	Travelers	Real/Personal			Personal Effects	\$ 50,000	
Property	Travelers	Real/Personal			Personal Peoperty	\$ 10,000	
Property	Travelers	Real/Personal			Pollutant Clean-up (aggegrate)	\$ 100,000	
Property	Travelers	Real/Personal			Reward Coverage	\$ 100,000	
Property	Travelers	Real/Personal			Valuable Papers	\$ 100,000	
Property	Travelers	Real/Personal			Valuable Papers (off premises)	\$ 100,000	
Property	Travelers	Real/Personal			Blanket	\$ 250,000	
Property	Travelers	Business Income			Dependent Property	\$ 250,000	\$ 25,000
Property	Travelers	Business Income			Claim Data Expense	\$ 25,000	\$ 25,000
Property	Travelers	Business Income			Newly Aquired Locations	\$ 500,000	\$ 25,000
Property	Travelers	Business Income			Ordinance or Law	\$ 250,000	\$ 25,000
Property	Travelers	Earthquake & Flood		\$ 5,000,000			\$ 25,000
Property	Travelers	Flood			Direct Damage (utility services)	\$ 50,000	
Property	Travelers	EDP - Data Processing Eq		\$ 50,000			\$ 1,000
Property	Travelers	EDP - Data/Media		\$ 471,443			\$ 1,000
Property	Inland Marine	Listed Equipment	\$ 25,000	\$ 6,522,378			\$ 2,500
Property	Inland Marine	Other Equipment		\$ 75,000	Not to exceed on 1 item	\$ 15,000	\$ 2,500
Property	Inland Marine	Scheduled Property		\$ 349,329			\$ 500
Property	Inland Marine	Flood/Earthquake		\$ 299,329			\$ 500

Specific Limits Apply

Narcotic Task Force (bldg) \$ 208,080
 Narcotic Task Force (pers) \$ 15,300
 Pemberton Caretaker's House \$ 156,060
 Pemberton House \$ 167,048