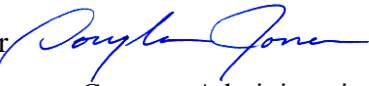




Inter-Departmental Communication

Office of the City Auditor

Date: September 26, 2016
To: Councilwoman Katheryn Shields
From: Douglas Jones, City Auditor 
Subject: Worker's Compensation Program Contract Administration Costs

This is in response to your request for information about how much the city paid Thomas McGee Insurance and Lockton Companies for administrative and consulting work related to the city's worker's compensation program in fiscal year 2016 and so far in the current fiscal year. This memo does not constitute an audit under Government Auditing Standards.

Summary

Between May 1, 2015 and September 14, 2016, the city paid Thomas McGee about \$681,000 to administer the city's worker's compensation program, conduct functional job analyses, and provide a nurse care line. The payments to Lockton we identified appeared to be related to city insurance premiums and not worker's compensation administration costs. According to its contract, Lockton is allowed to retain \$55,000 per year in commissions from the city's excess worker's compensation carrier to provide worker's compensation cost containment services.

What We Found

We reviewed the city's contracts with Thomas McGee Insurance and Lockton Companies. Thomas McGee is the city's third party administrator and processes claims for the city's workers' compensation program. The company also provides two additional services to the city: a nurse care line and functional job analyses. Lockton provides the city with insurance brokerage services. Its contract includes a provision for worker's compensation cost containment services at a flat fee of \$55,000 per year.

We obtained data on payments made to Thomas McGee and Lockton between May 1, 2015 and September 14, 2016, from the city's PeopleSoft Financial System. We did not verify the reliability or validity of the payment data or review invoices for services.

The city paid Thomas McGee about \$681,000 during the review period for worker’s compensation program administration services, functional job analyses, and the nurse care line.

Worker’s Compensation Program Administration Payments to
Thomas McGee, 5/1/2015 – 9/14/2016

| Fiscal Year | Payment Description | Amount |
|--|-----------------------------------|-----------|
| 2016 | Functional Job Analysis | \$25,632 |
| | Nurse Care Line | \$15,820 |
| | Thomas McGee Third Party Contract | \$400,128 |
| 2017 (as of 9/14/16) | Functional Job Analysis | \$24,303 |
| | Nurse Care Line | \$62,190 |
| | Thomas McGee Third Party Contract | \$153,140 |
| Total Third Party Administrator Payments | | \$681,213 |

The payments made to Lockton appeared to be related to city insurance premiums and not for worker’s compensation administration costs. According to the contract, the city allows Lockton to retain \$55,000 per year in commissions from the city’s excess worker’s compensation carrier to provide worker’s compensation cost containment services. The retention of commissions is not reflected in the city’s financial system.

cc: Mayor Sylvester “Sly” James Jr.
Members of the City Council
Troy M. Schulte, City Manager