

INTERNAL AUDIT REPORT

2013-02

Workers' Compensation Claims Processing
Contract Compliance

Risk Management Department

February 14, 2013

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Mayor Dan Sullivan

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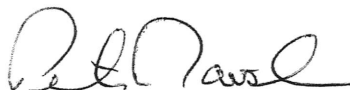
Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2013-02, Workers' Compensation Claims Processing Contract Compliance, Risk Management Department** for your review. A brief summary of the report is presented below.

In accordance with the 2012 Audit Plan, we have completed an audit of the workers' compensation claims processing contract. The objective of this audit was to determine whether Carl Warren & Company complied with the contract requirements for claim adjusting services. Specifically, we selected a total of 40 worker's compensation claims and reviewed the claim files for contract compliance. We also selected five older workers' compensation claims to determine why they were still open. In addition, we reviewed the resumes and licenses for Carl Warren & Company staff working on Municipal claims to ensure they had the required work experience and were licensed with the State of Alaska. Moreover, we tested if Carl Warren & Company submitted the required reports and made timely payments on claims in accordance with Alaska Statutes. Finally, we followed up on prior audit findings contained in Internal Audit Report 2007-10.

Based on our review, we determined that, overall, claims were actively managed by Carl Warren & Company, claims appeared to be subrogated when appropriate and files contained detailed claim notes and plans of action to bring claims to a timely conclusion. For the five older claims we reviewed, we found they were still open because workers' compensation payments were still being made. However, Carl Warren & Company did not always establish initial reserves in a timely manner. In addition, Carl Warren & Company did not always contact the employee, employer, and medical facility when a claim was received. Moreover, Carl Warren & Company did not always make diary entries. Finally, recorded interviews were not always performed and employee position descriptions were not always provided to treating physicians.

There were five findings in connection with this audit. Management was responsive to the findings and recommendations.


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Introduction. Since 1998, the Municipality of Anchorage (Municipality) has contracted for professional services with NovaPro Risk Solutions, LP, recently changed to Carl Warren & Company (Contractor), to provide adjusting, appraisal, and data processing services for all worker's compensation claims, general liability, and automobile liability claims. In December 2008, the Municipality hired an 'in-house' general liability and automobile claims adjustor, but kept the general liability and automobile claims electronic record keeping and check printing services with the Contractor. In 2012, the Municipality renewed its contract for claims adjusting services for a maximum yearly fee of \$376,000. The contract also contains four one-year renewal options keeping the basic minimum and administrative annual fee at \$376,000 for each of the renewal years. In 2012, according to the Municipality's Risk Management Department, the Contractor received 452 new claims for the Municipality and disbursed a total of \$5,308,838 for all workers' compensation claims.

Objective and Scope. The objective of this audit was to determine whether the Contractor complied with the contract requirements for claim adjusting services. Specifically, we selected a total of 40 worker's compensation claims and reviewed the claim files for contract compliance. We also selected five older workers' compensation claims to determine why they were still open. In addition, we reviewed the resumes and licenses for Contractor staff working on Municipal claims to ensure they had the required work experience and were licensed with the State of Alaska. Moreover, we tested if the Contractor submitted the required reports and made timely payments on claims in accordance with Alaska Statutes. Finally, we followed up on prior audit findings contained in Internal Audit Report 2007-10.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of September through December 2012. The audit was requested by the Administration.

Overall Evaluation. Overall, claims were actively managed by the Contractor, claims appeared to be subrogated when appropriate and files contained detailed claim notes and plans of action to bring claims to a timely conclusion. For the five older claims we reviewed, we found they were still open because workers' compensation payments were still being made. However, the Contractor did not always establish initial reserves in a timely manner. In addition, the Contractor did not always contact the employee, employer, and medical facility when a claim was received. Moreover, the Contractor did not always make diary entries. Finally, recorded interviews were not always performed and employee position descriptions were not always provided to treating physicians.

FINDINGS AND RECOMMENDATIONS

1. Initial Reserves Not Always Timely Set.

- a. Finding.** The Contractor did not always establish initial reserves in a timely manner. Specifically, initial reserves for 3 of 40 claims (8%) were not set within 7 days of receipt of the claim. The contract, Appendix A, Section A.1, states: "Timely Reserves: Initial reserves set within 7 days of receipt of claim by Contractor." Initial reserves should be timely set to ensure claims are covered by adequate funds.
- b. Recommendation.** The contract administrator should ensure that reserves are timely set as required by the contract.

- c. **Management Comments.** Management stated, "Concur. Our intention is to terminate the services of Carl Warren & Company once our new computer claim system is ready to go live. All functions of Workers' Compensation claim handling will move into the Municipality. We will have direct management control over all aspects of claim handling at that time. Our current target date is April 1, 2013."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Three-Point Contact Not Always Made or Made Late.**

- a. **Finding.** The Contractor did not always contact the employee, employer, and medical facility (three-point contact) when a claim was received. Specifically, for 13 of 40 claims (33%) the required three-point contact was not made and for 15 of 40 claims (38%) the required three-point contact was made late. The contract, Appendix A, Section A.2, states: "Contact: One business day for claims received at Contractor by 3:00 PM. Claims received after 3:00 PM, one business day from the following business day." Generally, when claimants are timely contacted, the claim has a better chance of progressing smoothly and costs may be reduced.
- b. **Recommendation.** The contract administrator should ensure that the three-point contact is made as required by the contract.
- c. **Management Comments.** Management stated, "Concur." See Management's full response in Finding 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Diary Entries Not Always Recorded.**

- a. **Finding.** The Contractor did not always make diary entries. A diary is a list of pending action items. Specifically, for 21 of 40 claims (53%) the diary did not show one or more required entries, and had not been updated within 30 days as required by the contract. The contract, Appendix A, Section A.4, states: "Current Diary: Files should be documented as having been worked within five business days of set diary date. Diary must be conducted at no more than 30 day intervals and will include a 3-point contact and review of the hard file as well as the electronic file."
- b. **Recommendation.** The contract administrator should ensure the diary is recorded appropriately and complies with all contract requirements.
- c. **Management Comments.** Management stated, "Concur." See Management's full response in Finding 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Recorded Interviews Not Always Taken.**

- a. **Finding.** Recorded interviews were not always performed. Specifically, 29 of 40 claims (73%) were required to have recorded interviews. However, our review of diary notes found that 8 of the 29 claims (28%) that required an interview failed to show that recorded interviews were performed. The contract, Request for Proposal, Section 3.2.2, states: "Recorded interviews (RI) must be taken on all back injuries, repetitive stress, mental stress, cases involving aggravation of a pre-existing condition,

every time-loss case that requires reopening six months or more after closure, and any case that may require more detailed investigation as determined by the adjuster or at the request of the MOA.”

- b. **Recommendation.** The contract administrator should ensure that recorded interviews are conducted in accordance with the contract.
- c. **Management Comments.** Management stated, “Concur.” See Management’s full response in Finding 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Employee Position Descriptions Not Always Provided To Treating Physicians.**

- a. **Finding.** Employee position descriptions were not always provided to treating physicians. Specifically, 23 of 40 claims (58%) were required to provide an employee position description. However, 22 of the 23 (96%) claims failed to show that the injured workers’ employee position description was provided to the treating physician. The contract, Request for Proposal, Section 3.2.7, states: “Treating physicians must have an employee’s position description or a physician’s evaluation form on any case over 2 months old, especially in cases where the injury was questionable.” According to the Contractor, one of the reasons for noncompliance includes out-of-date employee position descriptions provided by the Municipality.
- b. **Recommendation.** The contract administrator should coordinate with Employee Relations to ensure that up-to-date employee position descriptions are provided to the Contractor when required.

- c. **Management Comments.** Management stated, "Concur." See Management's full response in Finding 1.

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on January 7, 2013.

Audit Staff:

Jayi Schin