

**DEPARTMENT OF HUMAN RESOURCES
RISK MANAGEMENT DIVISION
WORKERS' COMPENSATION
AUDIT 09-03
SEPTEMBER 28, 2009**



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Roger Strout, Internal Audit Director

September 28, 2009

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Workers' Compensation, Audit 09-03

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Workers' Compensation.

Risk Management and the Third Party Administrator have already taken positive actions in response to our recommendations. We thank the management and staff of Risk Management and the following companies for their cooperation and assistance during this audit:

- Commercial Risk Management (the Third Party Administrator)
- CorVel Corporation (Provider network and Medical Bill Review)
- McGriff, Seibels & Williams (City's insurance agency)

Sincerely,

/s/ Roger Strout

Roger Strout
Internal Audit Director

cc: Darrell Smith, Chief of Staff
Bonnie Wise, Revenue and Finance Director
Kimberly Crum, Director of Human Resources
Michael Laperche, Risk Manager.

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/s/ Thomas Sanchez

Auditor

/s/ Roger Strout

Audit Director

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INTRODUCTION

Workers' Compensation is the program by which an employee injured on the job is provided with medical care at the employer's expense, and is paid part of his/her lost wages during recuperation. It is governed by the Worker's Compensation Law, Florida State Statutes Section 440, and administered by the Florida Department of Labor and Employment Security, Division of Workers' Compensation.

The City of Tampa has elected to self-insure Workers' Compensation, which means all covered expenses are paid by the City; there is no excess insurance for large claims. Claims are administered by a Third Party Administrator (TPA).

The City funds a reserve for all self-insured programs, which include general liability and property damage. The fund holds approximately \$17.3 million at the end of calendar year 2008 for all of these obligations. The actuarial report for the Workers' Compensation program estimates the present value of outstanding losses at approximately \$27 million just for Workers' Compensation alone. It is noted that these will be paid out over a long period of time, which Risk Management represents allows for the underfunding with no immediate consequences.

For FY08, \$8.3 million was paid for claims and/or additions to the reserve, and \$848,000 was paid for other professional services, such as the TPA and the annual assessment levied by the Florida Division of Workers' Compensation¹. The Risk Manager believes that funding for FY09 is about \$300,000 more than estimated claims, which would result in increasing the reserve and decreasing the unfunded liability.

Third Party Administrator (TPA)

The City uses a TPA to provide professional services as they pertain to the processing, management, payment, and investigation of all claims of the City's employees under the Workers' Compensation Act of the State of Florida. Commercial Risk Management (CRM) has acted in this capacity since 2002. In FY09, a new RFP was let for these services, and it was again awarded to CRM. The base charge for services is \$398,000 per annum. The contract is a flat rate, except for services to be outsourced as described in the agreement and later in this report. A disbursement bank account is funded by the City for payment of claims and expenses by the TPA. During the audit period, approximately 18,000 checks totaling approximately \$9.8 million were written by the TPA.

¹ Other Professional Services include legal and actuarial fees.

Managed Care/Bill Review Provider (MCP)

Part of the TPA's 2008 proposal included outsourcing Medical services to an MCP that maintains a managed care network. The MCP network includes physicians, physical therapy, medical equipment, prescription drugs, and related services. The cost of Workers' Compensation medical procedures is capped by state statute which provides a fee schedule for various medical procedures. The MCP network has arrangements that in some cases are lower in cost than the statutory fee schedule. Additionally, the City had negotiated discounts with hospitals and other medical providers on its own.

When that MCP network is used, the MCP is compensated 27% of the savings compared to the statutory fee schedule.

Part of the MCP's responsibility is to review each bill for accuracy and to assure that the least expensive network is utilized. The MCP is also compensated a fixed amount for each line of medical billing they review.

Indemnity Benefits

Injured employees are entitled to compensation for disability resulting in lost time disability or impairment. The amount of these benefits is based upon formulae fixed by statute. Benefits may be for a fixed number of weeks or indefinite based upon the nature and severity of the injury.

STATISTICS

	<u>FY06</u> <u>Actual</u>	<u>FY07</u> <u>Actual</u>	<u>FY08</u> <u>Actual</u>
Professional Services	\$993,682	\$1,022,050	\$848,625
Self Insurance Expense	5,646,495	6,723,731	8,339,318
Cost Allocation	<u>55,428</u>	<u>76,334</u>	<u>54,129</u>
Total	<u>\$6,695,605</u>	<u>\$7,822,115</u>	<u>\$9,242,072</u>

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY08 Audit Agenda. The objectives of this audit were to ensure that:

1. Adequate controls exist over the disbursement account.
2. Payments to Medical providers are properly screened and discounts correctly applied.
3. Fees by the Third Party Administrator (TPA) and the Medical Care Provider (MCP) are properly calculated.
4. Indemnity payments are properly calculated, including supplemental (cost of living) payments, and monitored for continuing eligibility.

STATEMENT OF SCOPE

This audit includes Workers' Compensation cases for which payments were made during Calendar Year 2008. Indemnity benefits related to injuries incurred prior to 2008 necessitated testwork of prior years to validate calculations of 2008 payment amounts.

STATEMENT OF METHODOLOGY

Payments were selected by random sampling supplemented with judgmental sampling to assure a cross section of types of payments. In some cases, transactions related to the sample item were further tested in order to test process cycles or to test for duplicates.

STATEMENT OF AUDITING STANDARDS

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Improvements can be made with respect to Risk Management monitoring of the disbursement account controlled by Commercial Risk Management.
2. Payments to Medical providers were properly screened and discounts correctly applied. Expansion of the City provider network should be explored, as well as consideration of alternate MCP's.
3. Fees by the TPA and the MCP were properly calculated.
4. Indemnity payments were properly approved, calculated, and paid in a timely manner.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Human Resources Department, they do present risks and potential savings that can be more effectively controlled. Before we completed our audit, Human Resources personnel implemented some of the Internal Audit Department's recommendations.

CONTROLS OVER THE DISBURSEMENT BANK ACCOUNT SHOULD BE IMPROVED

The City has established a disbursement bank account for the purpose of paying Workers' Compensation claims and expenses. The Third Party Administrator (TPA) has been given authority to disburse funds with limited oversight. Disbursements for calendar year 2008 were approximately \$9.8 million. (Reported expenses are less due to reimbursements and other credits.) This is a major part of the services the TPA provides.

A weekly Check Register is prepared by the TPA and reviewed by Risk Management for anything that might warrant further investigation. Backup documentation is not provided unless requested, although Risk Management can access some of the backup on line. A City check is drawn in the amount of the total from the check register for the week and processed through the City's Accounts Payable system. It is then deposited into the Workers' Compensation disbursement account by Risk Management personnel.

Neither the TPA nor Risk Management has been reconciling the bank statement for the disbursement account. The TPA is required to provide a monthly reconciliation to the City under the terms of the RFP/Agreement. The TPA indicated that the account has not been reconciled in years. The TPA has brought the disbursement account into balance as a result of our queries. An adjustment of +\$3,261.78 was made to bring it into balance. It is said to be primarily the result of voided checks not being entered, although the actual composition of the adjustment was not determined.

During the conclusion of this audit, the TPA has provided bank statements and workpapers which show that it is now performing monthly reconciliations.

We did not note any other material weaknesses in controls over the disbursement account.

RECOMMENDATION 1

The TPA should continue reconciling the bank account to the check register, and a copy of the bank reconciliation should be sent to Risk Management each month. Risk Management should compare the reconciliation to the check register as of the date of the reconciliation. Risk Management should review the check register and bank reconciliation for possible discrepancies. The reconciliation should be recalculated at least on a random basis and without advance notice to the TPA in order to improve control.

We also recommend that Risk Management periodically review backup for large, non-routine items, and a random selection.

MANAGEMENT'S RESPONSE

Concur. Risk Management appreciates the Audit Department's noting that the disbursement bank account is not reconciled monthly by Commercial Risk Management. Controls such as "positive pay" and dual signatures were already in place to provide protection against fraud.

The process has been updated to require account reconciliations monthly and quarterly random evaluations of payments to validate adequate backup documentation.

PROVIDER NETWORKS

Additional savings may be available if the City can expand its provider network.

The City has in place provider networks it has negotiated with hospitals, diagnostic centers and other medical providers. These networks provide lower costs in some cases compared to the MCP network. In addition, the MCP does not collect a percentage of the savings from City engaged providers.

During calendar year 2008, the City saved approximately \$36,000 over and above the discounts mandated by the statutory schedule by using its own City provider network². However, the City network has not been updated in recent years. It is unclear if these arrangements have been properly authorized.

The agreement with the TPA allows for change in the MCP during the term of the contract if the City considers it to be in its best interest. Alternatives are being considered. A determination was recently made to use a different provider for prescription drugs, which should result in a cost savings.

RECOMMENDATION 2

Re-evaluate the City's network providers. Risk Management should coordinate with the Purchasing Department and the City Attorney's office the requirements to formalize agreements. Coordinating with other local governments might be possible and mutually beneficial.

Proposals of other MCP's have recently been solicited by the City's insurance agent. These comparisons are complex and should be carefully analyzed by Risk Management, the insurance agent, and the TPA.

MANAGEMENT'S RESPONSE

Concur. The potential savings per annum has been estimated at well in excess of \$150,000 for making a change from Corvel to My Matrixx as the Pharmacy Benefit Provider. Risk Management has tasked Commercial Risk Management (TPA) and McGriff, Seibels, and Williams (MSW), our broker, to evaluate the report issued by McGriff, Seibels & Williams regarding the efficacy of various PPO networks. Two candidates are currently being reviewed and reference checked.

² Savings compared to the MCP's network may have been less.