

Worker's Compensation Process Audit

City of Minneapolis – Internal Audit Department
June 27, 2017

The Worker's Compensation Unit has been operating under inaccurate budget targets and should shore up their claim documentation. Changes in staff levels should be addressed to balance workload and expectations to maintain current claims processing outcomes, and to produce higher-quality claim processing in the future.



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Date: June 27, 2017

To: Mayor Betsy Hodges, City Council Members, Chief Financial Officer Mark Ruff, Risk Management & Claims Director Ellen Velasco-Thompson

Re: Worker's Compensation Process Audit

Findings Summary

Finding 1: The Worker's Compensation Unit's budget was incorrectly determined by not considering certain expenditures while also double-counting certain reimbursement revenues.

Internal Audit recommends establishing a budgeting approach for expenditures that more accurately captures expenditures and excludes reimbursements.

Finding 2: The Workers Compensation Unit had undergone staffing and functional changes, and it was unclear whether the current staffing levels are adequate to enable WC to accomplish its goals.

Internal Audit recommends a staffing study be conducted, and that long term succession planning factors be considered.

Finding 3: The documentation supporting claims files was not consistently maintained across all claims.

Internal Audit recommends continuation of current claims review efforts, with additional peer reviews and discussions to help highlight and share approaches and practices.

Background

The Risk Management & Claims Division of the Finance & Property Services Department goals were to create and promote a safe and supportive work environment and reduce financial exposure throughout the City of Minneapolis (City). This department includes a Worker's Compensation (WC) Unit that handles all aspects of a worker's compensation claim when a City employee is injured.

WC staff performed several functions: ensuring that injured employees receiving treatment covered by the City's worker's compensation policy are properly compensated for lost time and medical expenses; minimizing financial risk to the City by identifying non-covered compensation requests; providing support to City Attorney staff; and sharing information with City Safety staff and with City departments.

Audit Results and Recommendations

Finding 1: Budgeting

The WC Unit’s budget was incorrectly determined by not including certain expenditures while also double-counting certain reimbursement revenues. This occurred because the budget process utilized an actuarial study in a manner that did not result in an accurate budget estimate. As a result, the WC Unit has been operating under the assumption that it was missing its budgeted claims expenses figures by 30-40%.

Testing Results

An actuarial study had been periodically performed for WC for multiple purposes, including determining proper compensation reserve funding, ascertaining trends in claim numbers and expense, and estimating future payments. WC used the estimated future payments from these studies to determine their budgets for WC Claims expenses. 2016 results will be utilized to walk through the noted issues, below, though a review of prior results suggests WC Unit’s budgets from 2009 to present were affected.

2016 Example

In 2016, the budgeted WC Claims expenses were \$6.8 million, and the actual expenses were \$9.4 million, resulting in a \$2.6 million overage gap versus the budget.

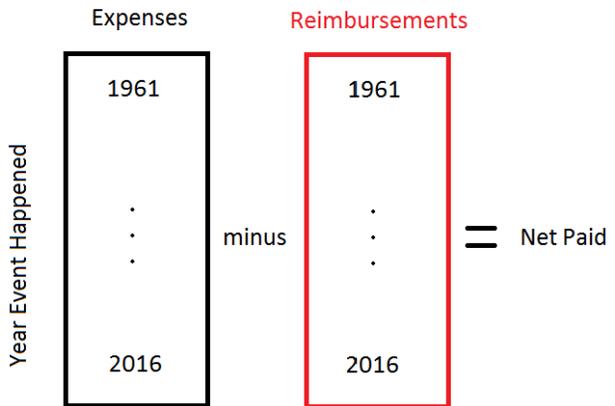
- For each year, WC records payments made related to claims into specific expense accounts. WC records reimbursements received related to claims into a specific ‘other revenue’ account.

Actual	
Expenses in 2016:	\$9.4 million
Reimbursements in 2016:	\$1.9 million

- Claims are grouped by the year the injury occurred. Amounts paid or received in the current year could be related to claims from as far back as 1961.

Taking all amounts paid and subtracting all reimbursements received results in the total amount of cash spent on claims in a given year.

Amounts Grouped by Event Date



- The budget for a year is an estimate of how much expenses are projected to be, and how much reimbursements are projected to be.

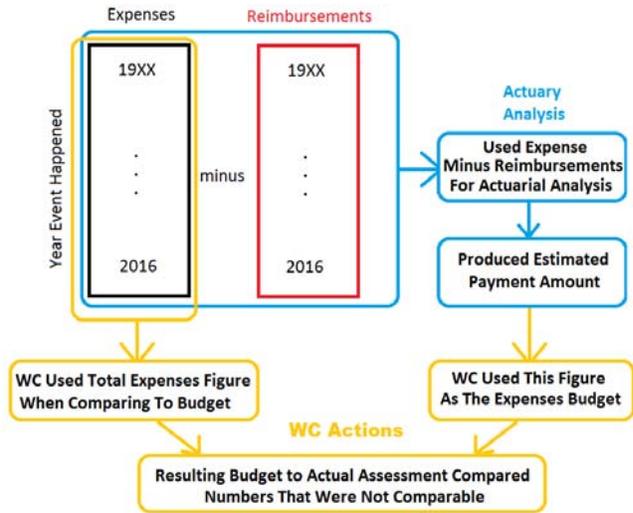
2016 Budget	
Expense for 2016:	\$6.8 million

Actual vs. Budget 2016 Expenses:	
Actual Expenses for 2016:	\$9.4 million
- Budget Expenses for 2016:	\$6.8 million
WC Identified Actual-Budget Gap:	\$2.6 million

- Issue 1

When estimating future payments, the actuary **netted expenses with reimbursements**, then used the net amount to perform actuarial estimates. However, WC used the resulting payment estimate figure as their budget for **total claim expenses, not including any reimbursements** (WC budgeted reimbursements in a separate account).

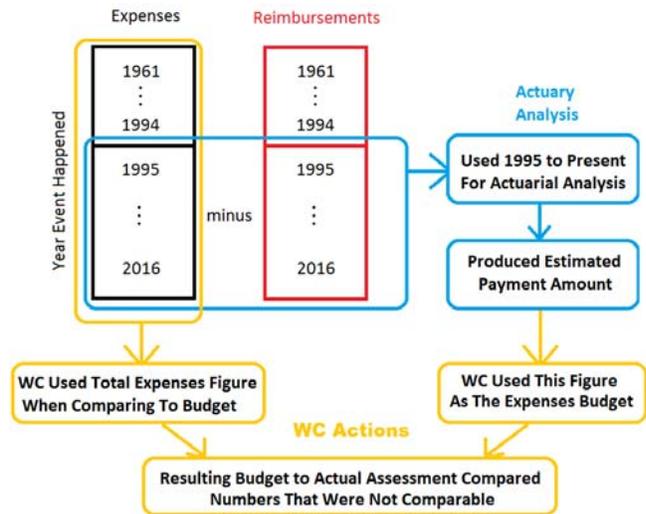
Issue 1 Impact Illustration



- Issue 2

When estimating future payments, the actuary used claims data for events that occurred from **1995 to present**. However, WC used the resulting payment estimate figure as their budget for all claims that continue to receive worker's compensation benefits, extending from **1961 to present**.

Issue 1 and Issue 2 Combined Impact Illustration



- Impact of Revision

As a result of the two issues, budget to actual assessments conducted by WC have been comparing fundamentally different data sets. When budgeting:

- WC did not budget for its expenditures related to events that happened prior to 1994.
- WC budget for expenses incorporated reimbursement from 1995-present, even though all reimbursements were also budgeted as an 'other revenue', effectively double-counting a portion of reimbursements in its budget.

Missing Piece

Expenses Not Part of Budget Estimate

1961
⋮
1994

\$1.7 million in 2016

Extra Piece

Reimbursements Subtracted For Budget Estimate

1995
⋮
2016

\$0.5 million in 2016

\$2.2 million

Revised Actual vs. Budget 2016 Gap

WC Identified Actual-Budget Gap: \$2.6 million
- Total adjustment amount: \$2.2 million
 Audit Revision Actual-Budget Gap: \$0.4 million

Budgeting Recommendations:

Internal Audit recommends that the Finance & Property Services Department:

- Identify an approach to budgeting for Worker's Compensation Claims expenditures that:
 - Accurately estimates total payments, and
 - Does not include receivable amounts in the expense accounts' budget figures.
- Determine whether any prior period budget to actual results need to be reassessed using the new approach developed above.

Finance & Property Services Department Response:

Finance & Property Services Department agrees with the finding and will take actions to address the recommendations.

Finding 2: Staffing and Resources

The WC Unit had undergone staffing and functional changes, and it was unclear whether the current staffing levels are adequate. Staff and management discussed a variety of options for staffing with internal audit, as well as long term succession planning considerations, but a staffing review has not been conducted to assess various options. A misalignment of staff can negatively affect efficiency, morale and long term viability of the WC Unit.

Testing Results

The WC Unit is currently staffed by two adjustors, a claims specialist providing support for the adjustors, and a manager. Prior to 2016, there were three adjustors on staff. Approximately 1,300 incidents are reported each year, of which approximately 650 become new claims. The amount of time needed to process a claim varies greatly with complexity. The current work load for each adjustor is approximately 200 claims, a mix of approximately half simpler medical only (MO) claims, and half more complicated lost time, or indemnity (IND) claims.

Staffing a worker's compensation function is not straight forward. The fundamental role of an adjustor is to review claim information and determine the extent of the City's responsibility to pay for claim expenses. A wide range of claims industry averages are available for claim loads, ranging from 125-175 IND claims for an adjustor, however very few data sets are available on what level of support staff is needed to enable a set claim load. Depending on the size of the department and support staff available, an adjustor may take on other claim-related duties including:

- Entering new claims into the claims management system.
- Making initial contact and taking initial statements.
- Submitting state-required forms and reports.
- Calculating, processing and issuing payments.
- Supporting attorneys when litigation arises.
- Interfacing with client departments to ensure they are aware of injury and cost trends.
- Interfacing with safety staff to ensure they are aware of injury and cost trends.
- Implementing return-to-work programs.
- Processing mail and other documentation.

With the exception of payment calculation and processing, the current work expectations for City adjustors include conducting some or all aspects of the above listed additional tasks. While the industry averages suggest that the quantity of City adjustors is reasonable, there is no assessment of how much additional time the adjustors have to accomplish the additional tasks which are crucial to achieving WC Unit goals.

There has been an FTE vacancy since 2016. Approaches to staffing were discussed, and a temporary contractor filled that vacancy for several months, but there has not been a comprehensive assessment of the needs of the unit to determine how best to fill the role. In researching staffing and resource adequacy, Internal Audit noted that periodic external reviews addressing such issues specific to worker's compensation offices are common. This provides an opportunity to obtain expert independent input on the vital subject of staffing just as potential staffing changes are being debated.

As an additional consideration, Internal Audit noted that fully integrating a new adjustor into the City could take several years because of the need to develop relationships and knowledge base of operations. Several WC Unit staff may be eligible for retirement in the next five to ten years, causing a significant loss of experience and effectiveness if a transition plan is not in place.

Staffing and Resources Recommendations:

Internal Audit recommends that the Finance & Property Services Department:

- Engage a third party¹ to conduct an external review of the effectiveness of current WC Unit staffing and provide recommendations on appropriate resource levels.
- Consider succession planning opportunities when determining the skill level and scope of work for any additional resources brought in to the WC Unit.

Finance & Property Services Department Response:

Finance & Property Services Department agrees that changes in their accounting system and budgeting system are required.

Finding 3: Claims Documentation

The documentation supporting claims files was not consistently maintained in sampled claims. The likely cause stems from varying work load levels, and time needed to generate documentation to completely document the current status of a claim. This could result in key claim information going undocumented and issues unaddressed, and result in loss of efficiency when information is entered significantly after activity occurred.

Testing Results

Internal Audit selected a sample of claims handled by the two current adjustors and by the contracted temporary adjustor. Our review looked for key elements that should exist for each claim, including:

- Claim notes, including whether notes exist, are current, and include an action plan for open claims
 - Of sampled claims, 2 of 29 did not have the expected notes elements.
- Whether there is evidence the injured employee was contacted
 - The employee contact was sometimes clearly stated, but other times was implied through copies of email exchanges. It was not always clear when the initial contact occurred.

1 - Internal Audit notes that Berkley Risk Administrators, the workers compensation provider servicing the League of Minnesota Cities Insurance Trust, provides such services and has the expertise needed for a review.

- Whether a First Report of Injury is included with the claim file
 - Some older claims did not include this document. Some older claims are still only in paper files and have not been digitized.
- Whether a sample of charges were supported with invoices or other documentation
 - All charges reviewed were tied to underlying documentation.
- For open claims, whether there were reserves and to-do diaries for adjustors.
 - Of sampled claims, 12 were open. Of these 1 of 12 did not diary entries, and all included adjustments.

The claims supporting documents is an element that gets reviewed by periodic Workers Compensation Reinsurance Association (WCRA) reviews, and is subject to periodic reviews by the WC manager. These reviews follow a more detailed and for some elements subject matter specific elements.

As each claim was handled individually, a systemic root cause for documentation variation was difficult to identify. A review of staffing, as described in Finding 2 above, could pinpoint whether gaps in documentation stem from adequacy of time to generate the needed documentation. Internal coordination and discussion could help identify better or worse practices for generating documentation. A best practice for documentation of work is to develop the documentation as work is conducted on a claim. Retroactive efforts to create documentation are less efficient because it requires individuals to shift between tasks, and can result in missed details.

Claims Documentation Recommendations:

Internal Audit recommends that the Finance & Property Services Department:

- Continue to review claims documentation in an effort to reduce the number of claims that have incomplete information, and consider implementing a peer review and discussion, both of claims that need more work and claims that are well documented, to encourage sharing of approaches and practices.

Finance & Property Services Department Response:

Finance & Property Services Department agrees with the findings and that peer reviews will be incorporated into staff meetings of trending, possible litigation and all other complex related claims. That overall procedural changes be incorporated into the Claims Handling Process.

Acknowledgments

The City of Minneapolis Internal Audit team would like to acknowledge the time and effort put forth by the Risk Management & Claims Division staff. All individuals we worked with during this audit were extremely forthcoming with information. Additionally, requests for data and documents were provided very promptly.

Appendix A: Objective, Scope and Approach

Objective

This audit was conducted as a part of the Internal Audit Department's Fiscal Year 2017 Annual Audit Plan. The objective of this audit was to determine the operational effectiveness of handling worker's compensation claims.

Scope

The scope of this audit included how the Worker's Compensation component of the Risk Management & Claims Division:

- Established goal and objectives
- Utilized resources to accomplish its goals and objectives, including claims handling processes
- Communicated results and assessed progress toward goals and objectives
- Addressed potential impacts of recent State Supreme Court cases and Legislative Proposals

Approach

To accomplish audit objectives, Internal Audit:

- Reviewed Minnesota statutes and researched Worker's Compensation Office best practices.
- Reviewed audits of Worker's Compensation functions in other cities and counties.
- Reviewed internal policies, forms, and other documents on the City intranet.
- Discussed Worker's Compensation functionality with Hennepin County staff and League of Minnesota Cities staff.
- Met with city staff and the WC Actuary.
- Reviewed Worker's Compensation claims files.
- Acquired and analyzed financial data from the COMET finance system, the RiskMaster (RMX) claims management system, and underlying documentation.

Appendix B: Finance & Property Services Department Response



Ellen Velasco-Thompson, Director
Risk Management & Claims Division
Finance and Property Services
330-2nd Avenue South - Rm. 550
Minneapolis, MN 55401
www.minneapolismn.gov

To: Will Tetsell, Kiril Vassiliev

Cc: Mark Ruff, Lori Johnson, Mary Dunning

From: Ellen Velasco-Thompson, Director
Sean Curran, Risk Manager
Risk Management & Claims Division

Date: June 26, 2017

Re: Department's Response to the Workers' Compensation Process Audit

Finding 1: Internal Audit recommends establishing a budgeting approach for expenditures that more accurately captures expenditures and excludes reimbursements.

Response: We agree that changes in our accounting system and budgeting system are required.

Finding 2: Internal Audit recommends a staffing study be conducted, and that long term succession planning factors be considered.

Response: We agree with the findings that succession planning factors are considered.

Finding 3: Internal Audit recommends continuation of current claims review efforts, with additional peer reviews and discussions to help highlight and share approaches and practices.

Response: We agree with the findings and that peer reviews will be incorporated into staff meetings of trending, possible litigation and all other complex related claims. That overall procedural changes be incorporated into the Claims Handling Process.