Office of the City Auditor

Audit of the
City’s Workers’ Compensation Program

Report Date: April 11, 2016
Office of the City Auditor

“Promoting Accountability and Integrity in City Operations”

Lyndon Remias, CPA, CIA, CRMA, CGAP  City Auditor
Gretchen Hudome, CIA, CRMA  Deputy City Auditor

www.vbgov.com/cityauditor
Date: April 11, 2016

To: David L. Hansen, City Manager

Subject: Audit of the City’s Workers’ Compensation Program

I am pleased to present the report of our audit of the City’s Workers’ Compensation Program. The objectives of our audit were to ensure compliance with laws and regulations, and that adequate policies, procedures and processes are in place to ensure claims are addressed in a proper and timely manner. Our review focused on the City’s overall compliance with the Virginia Workers’ Compensation Act, the City’s administration of the benefits available under the Act and its use of recommended (best) practices to ensure compliance, control costs and curb abuse.

Findings considered to be of insignificant risk have been discussed with management. We completed fieldwork on March 4, 2016.

The Office of the City Auditor reports to City Council through the City’s Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, Department of Finance, Risk Management, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the management and staff of the Finance Department, particularly Risk Management and Payroll, for their cooperation and responsiveness to our requests during our audit and their receptiveness to questions, recommendations and suggestions.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

City Auditor
Audit Committee Members
Tom Leahy, Acting Deputy City Manager
Patti Phillips, Director of Finance
Jeff Rodarmel, Risk Management Administrator

The Office of the City Auditor is an independent audit function reporting directly to the Virginia Beach City Council.
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Purpose

As part of our annual audit plan, we reviewed the City’s Workers’ Compensation Program to ensure compliance with laws and regulations and that adequate policies, procedures and processes are in place to ensure claims are addressed in a proper and timely manner. Our review focused on the City’s overall compliance with the Virginia Workers’ Compensation Act, the City’s administration of the benefits available under the Act and the use of recommended (best) practices to ensure compliance, control costs and curb abuse.

Scope

Our audit covered the period of January 1, 2015 through December 31, 2015 for compliance testing and open (or re-opened) claims as of January 1, 2015 and claims for injuries occurring during calendar year 2015. Our audit did not look at the merits of individual claims, but focused on the City’s operational policies and procedures in effect at the time of our audit and multi-year analytics.

Methodology

To accomplish our objectives, we performed the following:

• Obtained and reviewed pertinent laws, regulations, policies and procedures regarding Workers’ Compensation.
• Researched recommended (best) practices to ensure compliance, control costs and curb abuse.
• Reviewed the City’s policies and processes related to workers’ compensation through inquiry and examination of documents and data.
• Met with appropriate staff to discuss current policies, processes and workers’ compensation coverage.
• Assessed whether the design of the City’s policies and processes are adequate to ensure compliance and reduce the risk of noncompliance and loss to an acceptable level.
• Obtained a listing of workers’ compensation claims and an extract of workers’ compensation payments for the period under review.
• Performed analysis and tests of data to ensure reliability and completeness of data and to identify trends and high-risk criteria.
• Selected a sample of claims for review based on the results of our analysis.
• Traced our sample to documentation supporting compliance. Investigated anomalies/irregularities.
• Obtained and reviewed third party agreement(s) related to workers’ compensation.
• Reconciled a sample of billings to claims payments for period under review.
• Performed analysis of costs associated with claims to UCRs and/or other payers.
• Made recommendations, as appropriate to ensure compliance, improve processes, increase efficiency and reduce the risk of loss to the City.
Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City’s Audit Committee, City Council and appropriate management within the City of Virginia Beach. This report will also be made available to the public.
Background

Risk Management is a division of the Finance Department and serves as the insurance company for the City. The Risk Management Division provides risk prevention and mitigation services aimed at reducing the City’s overall losses, in a manner that supports the City’s strategic mission and objectives. Additionally, the Risk Management Division strives to continuously improve the delivery of such services. Risk Management works with Occupational Health and Safety in identifying areas for training and/or injury prevention.

The services provided by Risk Management include the adjustment of liability claims for property damage, bodily injury and physical damage. In addition, Risk Management is responsible for “Employee Honesty” bonds covering all employees; administering vehicle titles for over 700 purchased/sold/seized/auctioned vehicles. In addition, in concert with Occupational Safety and Health, Risk Management works with the operating departments via the Risk Management and Safety Committee to assist in making the workplace a safe one for all employees. There are two Claims Adjusters for liability and one Claims Adjuster handling workers’ compensation claims for City employees who are injured on the job.

The goal of risk management is threefold: to create a safe workplace; to prevent catastrophic financial losses that have the potential to bankrupt a government; and to provide budgetary stability. Risk management eliminates or reduces the detrimental effects of those risks that cannot be avoided, and protects the government and its employees from unnecessary loss.

The city is exposed to a variety of accidental losses and has established a risk management strategy that attempts to manage and minimize the cost of risk. Risk control measures are in place to reasonably assure city employees are aware of their responsibilities regarding loss exposures and to reduce possible losses to property owned or under the control of the City.

The Risk Management Division accounts for all costs through the Risk Management Internal Service Fund. Exhibit 1, above, provides a breakdown of cost percentages for the different program areas.

Workers’ compensation is the highest priority for Risk Management’s focus due to its financial impact. The workers compensation program accounts for approximately 78% of the City’s total risk management costs. The workers’ compensation program is the mechanism by which
statutory benefits prescribed by Virginia state law are provided to an employee due to a job-related injury (including death) resulting from an accident or occupational disease.

There are two major types of benefits paid by the city for workers’ compensation related injuries. Medical benefits include payment for medical treatment, causally related to the compensable accident. The treatment must be provided for as long as necessary. Treatment is provided by a physician chosen from a panel of at least three physicians selected by the City. The second type of benefit is indemnity benefits. When incapacity from work is total, the city must pay 66 2/3% of the employee’s average weekly wages for up to 500 weeks.

The Risk Management Division employs a Third Party Administrator (TPA), CorVel Corporation, to assist with the administration of its Workers’ Compensation program. Services provided by the TPA include claims investigation, establishing loss reserves, claims adjusting, and claims payment processing.

The total cost of the workers’ compensation program was approximately $18.4 million in FY15. Included in this amount are claims payments, administrative fees paid to the TPA, excess insurance premiums, and the actuarial increase in accrued estimated liability for workers’ compensation claims and judgments. Please see Exhibit 2.

Workers’ Compensation Claims and Costs

There are three types of claims under the Virginia Workers’ Compensation Act. The three types of claims are:

- **Report Only** – a claim where an employee reports a minor accident or close call that does not require medical attention, and generally does not have any associated costs.
- **Medical Only** – a claim where an employee reports an accident that does not result in lost time or permanent disability but does require medical treatment.
- **Indemnity** – a claim where an employee is injured to the extent that they are unable to work and incur lost time (temporary or permanent disability) and medical treatment.

The City continues to pay workers’ compensation claims/benefits after the employee is no longer an active employee (service retired, disability retired, or terminated) and paid $3.9 million, in total, or 30.9% in benefits to inactive employees in FY15.

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Paid</td>
<td>$ 12,488,471</td>
</tr>
<tr>
<td>TPA Fee</td>
<td>$ 180,000</td>
</tr>
<tr>
<td>Excess WC Premium</td>
<td>$ 665,206</td>
</tr>
<tr>
<td><strong>Total Paid on WC Program</strong></td>
<td>$ 13,333,677</td>
</tr>
<tr>
<td>Increase in Accrued Liability</td>
<td>$ 5,028,648</td>
</tr>
<tr>
<td><strong>Total Cost of WC Program</strong></td>
<td>$ 18,362,325</td>
</tr>
</tbody>
</table>
The three cost elements are:

- **Indemnity** – lost time payments for disability as well as settlement contributions for partial and total disability.
- **Medical** – payments for medical care including prescriptions and nurse case management.
- **Expense** – payments associated with bill review, investigations, legal costs and other administrative costs associated with the management and resolution of the case.

Also included in the costs of workers’ compensation claims are:

- **Medical Bill Review** – charges paid to the TPA to review medical bills for proper reimbursement.
- **Nurse Case Managers** – used to handle cases involving complex medical care.
- **Prescription Drugs** – charges related to pharmaceuticals.

Report Only claims generally do not have any cost associated with the claim; therefore, the following refers to **Medical Only** claims and **Indemnity** claims.

Frequency and severity are key elements to consider in measuring the costs of the workers’ compensation program. Frequency (of losses) is a measure of the number of occurrences of a loss for a specific period of time. Severity (of losses) is a loss characteristic that indicates the size of losses in terms of the dollar amount expected to be paid over the life of the claim.

There were 787 new **Medical Only** and **Indemnity** claims filed in FY15 totaling about $4.4 million in incurred workers’ compensation losses. Incurred losses are the total amount of paid claims and loss reserves associated with a particular period of time.

While frequency and severity are key elements to consider in measuring costs of the workers’ compensation program, another factor to consider is the frequency of severe claims. Although, only 35% of the costs in FY15 were for claims valued greater than $50,000 at 6/30/2015, it is expected that the costs of these claims will increase as the claims develop and mature.
Loss development is the difference between the original loss as initially reserved and its subsequent evaluation later. Adjustments in loss reserves occur because information needed to establish precise reserves might not be available at the time the claim is filed and the medical information necessary to establish the reserve will not be forthcoming until weeks or even months into the claim.

The City of Virginia Beach is certified by the Virginia Workers’ Compensation Commission as self-insured for workers’ compensation benefits. Workers’ compensation losses are paid from the Risk Management Fund up to the self-insured retention amount\(^1\).

Risk Management relies on reports generated from InSITE, the City’s HR and GL system for payroll, financial recording and reporting purposes, as well as GovMax, the City’s budgeting system, to oversee and monitor spending.

With regard to Workers’ Compensation claims and expenses, Risk Management also relies on information captured and reports generated through CareMC, CorVel’s claims management application.

Other information used by City management and Risk Management is captured in RiskMaster.

Risk Management has seven (7) FTEs. CorVel, the City’s TPA, handles the actual recording, processing and reporting of workers’ compensation claims. In early FY16, the City’s Payroll Division took over the issuance of the workers’ compensation indemnity payments for active employees. CorVel processes indemnity payments to former employees.

\(^1\) The City’s current self-insured retention is $1,250,000 per claim. Excess coverage insurance provides a stop-loss at $1,250,000 up to $25,000,000 for the medical costs, lost wages and other compensation for work-related employee injuries and covered diseases.
Findings and Results

Monitoring Claims and Compliance

There are two major types of benefits paid by the city for workers’ compensation related injuries. Medical benefits include payment for medical treatment, causally related to a compensable incident. Under the Virginia Workers’ Compensation Act, treatment is provided by a physician chosen from a panel of at least three physicians selected by the City and must be provided for as long as necessary. The second type of benefit is indemnity. When incapacity from work is total, the city must pay 66 2/3% of the employee’s average weekly wages for up to 500 weeks.

In FY15, the City spent approximately $3.2 million for indemnity payments including lost time payments for disability, as well as settlement contributions for partial and total disability.

Temporary disability payments (whether partial or total) are subject to change over time based on several factors such as an employee or former employee’s earnings, new or modified employment opportunities and noncompliance. Employees and former employees are required, when asked, to periodically report earnings and in some cases actively pursue new employment opportunities within their abilities.

In early FY16, the City’s Payroll Division took over the issuance of the workers’ compensation indemnity payments for active employees. CorVel, the City’s third party administrator, issues indemnity payments to former employees.

During our audit, we identified possible over and/or under indemnity payments to employees of approximately $62,270.

We identified one instance where an employee who retired on a work-related disability had returned to full time employment, yet continued to receive indemnity payments amounting to approximately $60,448.

Our review of crossover payments (indemnity payments made to employees leaving City employment) identified an instance where an employee may have been underpaid approximately $1,822.

Other identified compliance issues include:

- An employee receiving unmodified indemnity payments who declined an offer of employment made subsequent to leaving City employment due to a work-related injury.
- An active employee receiving indemnity payments that had not complied with required medical appointments.
- An employee using injury leave that did not have an open workers’ compensation claim.
Risk Management and CorVel are researching these claims.

**Recommendations**

1.1 Clearly document, in writing, the process for identifying active employees on workers’ compensation, processing workers’ compensation payments in InSITE and recording the corresponding expense to the individual claim in CareMC.

1.2 Implement system controls to prohibit workers’ compensation indemnity payments to employees not identified with a workers’ compensation assignment status in InSITE.

1.3 Consider adding descriptive codes to identify those leaving the City’s employ due to a work-related disability.

1.4 Develop exception-based reports within InSITE to assist in adequately monitoring transactions related to workers’ compensation, such as:

   - Employees with injury leave posted that do not have a designated workers’ compensation assignment status;
   - Employees with workers’ compensation earnings elements without a workers’ compensation assignment status; and,
   - Rehiring of former employees with an active workers’ compensation claim in part-time or full-time positions.
   - Reconciling active employees and their status to open indemnity claims in CareMC on a regular basis.

1.5 Enhance procedures for monitoring a claimant’s compliance with the requirements of the Virginia Workers’ Compensation Act related to medical, vocational rehabilitation and wage reporting, including but not limited to, providing each claimant with a written explanation of their compliance responsibilities while receiving workers’ compensation and actively pursuing remedies for noncompliance.

1.6 Actively pursue recovery of verified overpayments.
Controlling Medical Costs

Workers’ compensation continues to be a significant portion of the City’s risk management activities and costs. In FY15, cash expenditures amounted to 78% of total cash expenditures for risk management. According to Risk Management, the major drivers for the workers’ compensation costs are medical costs and the lost wages paid to retirees already approved for job-related disability retirement. The Virginia Retirement System (VRS) requires that all 500 weeks of workers’ compensation lost wages be paid by the City prior to VRS payments beginning. In FY15, the City paid approximately $2.2 million in lost wages to retirees or others no longer employed by the City. In addition, increases in medical costs, in general, as well as the increase in more serious medical issues of late have contributed to the overall increases in workers’ compensation costs. Total expenses for medical services (including prescriptions) were $8.2 million in FY15. Exhibit 4 provides a breakdown of the FY15 workers’ compensation costs by category for active and inactive employees.

Over the last year or so, Risk Management has undertaken several commendable measures to improve coordination and outcomes while reducing costs for workers’ compensation. These measures include:

- Review of the disability process in conjunction with the Department of Human Resources and those City departments having significant workers’ compensation injuries.
- Negotiations with contracted medical service providers to increase discount percentages thereby providing an additional 5% to 20% reduction in workers’ compensation medical costs.
- Adoption of the City’s Return to Work Program Policy and Procedure (HR Policy 6.20) in December 2015. The goal of which is to enable employees to return to productive employment as quickly and as safely as possible after an injury or illness.

We compared the costs of five of the City’s most frequently billed medical services to usual and customary rates for the same services in Virginia and/or Virginia Beach. Our findings are depicted in Exhibit 5.
Exhibit 5

Results of Comparison of Average Cost per Service

<table>
<thead>
<tr>
<th>Medical Service</th>
<th>#</th>
<th>City Workers' Comp Average</th>
<th>Virginia All Payer Claims Database</th>
<th>Medicare</th>
<th>Medicaid</th>
<th>Fair Health</th>
<th>Possible Net Savings (at Virginia All Payer Rates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Therapeutic Exercise</td>
<td>9,875</td>
<td>$136.98</td>
<td>$72.24</td>
<td>$32.19</td>
<td>$27.94</td>
<td>$73.00</td>
<td>$845,670.31</td>
</tr>
<tr>
<td>Manual Therapy</td>
<td>6,962</td>
<td>$59.99</td>
<td>$114.16</td>
<td>$29.77</td>
<td>$25.79</td>
<td>$73.98</td>
<td>($6,509.47)</td>
</tr>
<tr>
<td>Office/Outpatient Visit</td>
<td>2,737</td>
<td>$99.84</td>
<td>$66.41</td>
<td>$72.34</td>
<td>$56.23</td>
<td>$129.96</td>
<td>$50,921.89</td>
</tr>
<tr>
<td>Neuromuscular Re-education</td>
<td>2,608</td>
<td>$67.91</td>
<td>$74.77</td>
<td>$33.60</td>
<td>$28.86</td>
<td>$75.00</td>
<td>($38,735.32)</td>
</tr>
<tr>
<td>MRI, Lower Extremity without Contrast</td>
<td>135</td>
<td>$845.85</td>
<td>$365.46</td>
<td>$234.30</td>
<td>$202.33</td>
<td>$275.00</td>
<td>$77,837.96</td>
</tr>
<tr>
<td><strong>Total Possible Savings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$1,006,656.01</strong></td>
</tr>
</tbody>
</table>

In March 2016, with the City’s support, the Virginia General Assembly passed a bill directing “the Workers' Compensation Commission to adopt regulations establishing fee schedules setting the maximum pecuniary liability of the employer for medical services provided to an injured person pursuant to the Virginia Workers' Compensation Act, in the absence of a contract under which the provider has agreed to accept a specified amount for the medical service. The regulations implementing the fee schedules shall become effective on January 1, 2018. The initial fee schedules will set amounts based on a reimbursement objective, which is the average of all amounts paid to providers in the same category of providers for the medical service in the same medical community.” The Governor approved the legislation on March 7, 2016.

We believe this legislation will not only help to lower the overall costs of the medical services provided under workers’ compensation as seen in Exhibit 4, but will also aid in budgeting and predicting future reserves.

**Recommendation**

2.1 Continue efforts to lower medical costs.

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2 Workers’ compensation numbers and average cost based on services invoiced between January 1, 2013 and June 30, 2015.

3 HB 378 Workers’ compensation; fee schedules for medical and legal services. This legislation is a companion to SB 631.
Implementing Best Practices

We researched recommended (best) practices regarding administration and monitoring compliance of workers’ compensation programs, as well as preventing and/or detecting abuse.

Best practices generally fall in the following categories:

**Returning injured workers to work**
Ensuring that injured workers return to work when appropriate, either in modified duty jobs or to their regular job, can minimize the cost of paying for time-loss.

**Controlling medical costs**
Practices to ensure that only appropriate medical services are provided to injured workers, at an established price, can help to control medical costs.

**Promoting workplace safety**
Reducing the number and severity of accidents has a direct relationship with controlling workers’ compensation costs.

**Managing claims in a timely and effective manner**
Minimize the duration of the claim and time-loss payments through timely and effective claims management.

**Deterring and investigating fraud**
Establishing practices to ensure that workers’ compensation funds only pay for necessary costs associated with legitimate job-related injuries and illnesses can minimize costs associated with fraudulent claims or inappropriate services.

**Promoting overall health and wellness in the workplace**
Health and wellness programs demonstrate that the employer cares about employees. Fit employees have significantly less workers’ compensation claims than non-fit employees.

Exhibit 6, on the next page, depicts the City’s use of recommended practices.
## City’s Use of Recommended Practices

<table>
<thead>
<tr>
<th>Recommended Practice</th>
<th>In Place</th>
<th>Newly Implemented/In Process/Sometimes</th>
<th>Not Yet</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RETURNING INJURED WORKERS TO WORK</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Return-to-work program in place</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Establish a strong relationship with medical providers</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Ensure modified duty jobs are available when needed</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CONTROLLING MEDICAL COSTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Fee schedules</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Case/Bill Reviews</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PROMOTE WORKPLACE SAFETY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Make safety an organization-wide priority</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Perform hazard identification walk-throughs of work places</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Regularly review claims data for opportunities to reduce accidents and improve safety</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Use a drug testing program to discourage potential employees (drug using) from applying for City positions</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Fitness for duty program</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MANAGING CLAIMS IN AN EFFECTIVE AND TIMELY MANNER</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Supervisor training</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Timely claims reporting</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Written policies and procedures</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DETTERING AND INVESTIGATING FRAUD</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Conduct background checks</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Have fraud prevention/detection procedures in place</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Pay attention to worker scuttlebutt/rumors</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Examination by a physician of the employer’s choosing</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Use of private investigators to perform surveillance videos of employees suspected of faking injuries</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PROMOTING OVERALL HEALTH AND WELLNESS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Establish a health and wellness program.</td>
<td>x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As shown above, the City follows most of the recommended practices designed to ensure compliance, cut costs and curb the risk of workers’ compensation abuse.

### Recommendation

3.1 Continue efforts to ensure employee safety, control costs and return employees to productive work through coordination with Occupational Safety and effected departments.
Conclusion

Overall, the City’s workers’ compensation program is effectively managed and focused on continuous improvement aimed at reducing risk and lowering the City’s costs. Through our research, we identified recommended (best) practices to ensure compliance, control costs and curb abuse. The City has already incorporated most of these recommended practices.

Internal controls and procedures related to the administration and monitoring of workers’ compensation claims can be strengthened to facilitate the City’s ability to ensure compliance and avoid overpayments.

Acknowledgements

We would like to thank the management and staff of the Finance Department, particularly Risk Management and Payroll, for their cooperation and responsiveness to our requests during our audit and their receptiveness to questions, recommendations and suggestions.
INTER-OFFICE MEMORANDUM

DATE: April 11, 2016

TO: Mr. Lyndon Remias, City Auditor

FROM: Jeffrey R. Rodarmel, Risk Management Administrator

SUBJECT: Audit of City’s Workers’ Compensation Program

Thank you for your review of the City’s Workers’ Compensation Program. I am pleased that the audit found that overall; the City's program is effectively managed and focused on continuous improvement aimed at reducing risk and lowering the cost to the City. We share the same desire to strengthen the internal controls and procedures to ensure compliance and avoid overpayments related to the administration and monitoring of workers’ compensation claims through best practices as outlined in the report’s recommendations.

Workers’ compensation is the highest priority for Risk Management due to its financial impact to the City. We are currently reviewing the audits possible over and/or under payments to employees to verify what was actually owed to the employee. We will pursue recovery if it is confirmed there was an overpayment or reimburse the employee if there is an underpayment confirmed. As you know, Risk Management worked with Payroll to include workers’ compensation indemnity payments with the City’s payroll system for active employees effective July 1, 2015. This has provided a more efficient process that eliminates any potential duplicate payment for active employees.

Risk Management in coordination with Payroll will work with Human Resources to create a new workers’ compensation drop down within InSITE to identify those active employees who are out of work “No Duty”. Risk Management and Payroll will review the current written process with the PALS to ensure the “Limited Duty” and “Restricted Duty” drop downs continue to be used for active employees within the InSITE system.
Risk Management has also developed and implemented exception based reports beginning in March 2016 to monitor transactions related to worker's compensation payments to include all items noted as recommendations for exception-based reports.

Risk Management and CorVel, the City’s third party administrator, will develop and implement a letter that is generated to the employee on their compliance responsibilities while receiving workers' compensation. Effective FY 2015, Risk Management has taken a more active approach to pursuing employees for non-compliance and will ensure consistency across all claims regardless of the age of the claim.

We are pleased that the audit has acknowledged the many positive changes Risk Management has undertaken to improve coordination and outcomes for our injured employees while also reducing costs for workers' compensation. As noted in the audit, the City of Virginia Beach already follows the majority of the recommended best practices and will look to see how we can more effectively utilize them. There is only one best practice that is not currently being used and that is the use of a fee schedule. As noted in the audit, legislation has been passed to utilize a fee schedule that will begin January 1, 2018. We will continue our many current efforts to lower medical costs, ensure employee safety and return employees to productive work through coordination with Occupational Health & Safety as well as the effected departments.

We are also pleased that the audit had few and mostly procedural findings; however, we understand the potential for human error when processes move through various divisions for handling. We will carefully audit and monitor these processes and we appreciate the effort that went into the audit report.

JRR
CC: PAP