



CITY OF GLENDALE, CALIFORNIA
Management Services Department
INTERNAL AUDIT

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December 19, 2013

REPORT #: 2014-09

Matt Doyle, Director of Human Resources
Human Resources

Dear Matt,

Enclosed is the final audit report for the Workers' Compensation Performance Audit. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the course of the audit.

Should you have any questions, please feel free to contact Naira Akopyan or myself.

Thank you,

A handwritten signature in cursive script that reads "Michele Flynn".

Michele Flynn,
City Auditor

Enclosure

cc: Yasmin Beers, Assistant City Manager
Robert Elliot, Director of Finance
Steve Martin, Risk & Insurance Services Manager
Scott Ochoa, City Manager
Cheryl Scott, Workers' Compensation Administrator

Human Resources Workers' Compensation Performance Audit

December 19, 2013

Background

To be in compliance with the State of California's Labor Code, the City of Glendale (City) provides workers' compensation benefits to employees who are injured during the course of their employment. The Workers' Compensation Section in the Human Resources Department processes all work related injuries. The City is self-insured for up to \$2 million and has excess insurance coverage with Arch Insurance Group for any claims over \$2 million, up to \$10 million. Currently, there are 782 open claims which are processed by two examiners and reviewed by one administrator. In FY12-13, the City spent approximately \$9.4 million in claims and settlements.

The City provides a salary continuation benefit for 320 hours/8 weeks with full pay for miscellaneous employees at the time of a work related injury. This means miscellaneous employees can take up to 320 hours off from work to recover from their injuries and receive full pay. After the 320 hours is completed, employees are eligible to receive temporary disability benefits authorized by the treating physician.

Employees can receive temporary disability benefits during the salary continuation period. As a general rule, temporary disability payments are two-thirds of an employee's gross wages at the time of the injury, with minimum and maximum rates set by law. In addition, temporary disability benefits are non-taxable. If temporary disability benefits are authorized during the salary continuation period, the employee will receive two-thirds of his/her salary as non-taxable, and one-third of his/her salary as taxable.

Based on the Labor Code, employees are also eligible to receive permanent disability benefits if their treating physician determines that the injury has become permanent and stationary, meaning continuing treatments will not improve the injury any further. The physician's report is submitted to the State's Disability Evaluation Unit (DEU) for a rating of the permanent disability. The employee is then paid according to a rating schedule provided by the state. Permanent Disability benefits are non-taxable and are paid every two weeks.

Under State of California Labor Code Section 4850, sworn safety members of the Police and Fire Departments, who are eligible, shall receive leave of absence up to 12 months with full pay for injuries arising in the course of their employment. This pay is non-taxable.

The Workers' Compensation Section is currently working with the state and the Glendale Police Officers Association (GPOA) to create and implement an Alternative Dispute Resolution (Carve-out) program. According to the Department of Industrial Relations website, "carve-out" programs allow employers and unions to create their own alternatives for workers' compensation benefit delivery and dispute resolution under a collective bargaining agreement. The program is anticipated to create efficiencies and improvements in the length of time claims are resolved and closed. Since the program is still in the midst of being implemented, Internal Audit did not include the review of the program in the scope of this audit.

Scope, Objective, & Procedures

The scope of the audit encompasses the time frame of July 1, 2012 through October 31, 2013. The objective of this audit was to evaluate the efficiency and effectiveness of the workers' compensation claims process.

In order to accomplish the audit objectives, the following audit procedures were performed:

- Obtained an understanding by reviewing applicable state regulations and City of Glendale's policies and procedures.
- Performed a walkthrough with staff of the processes.
- Identified risks and controls.
- Performed a duplicate payment test for all payments made during the scope of the audit.
- Reviewed temporary and permanent disability payments for timeliness and accuracy.
- Reviewed delayed claims for reasonableness of the delay period.
- Electronically distributed a questionnaire to various comparable cities to obtain information about their Workers' Compensation Section.

Summary of Results

Internal Audit noted that the City's Workers' Compensation Section processes payments with minimal duplicates and calculates temporary disability payments accurately. Areas of improvement were noted regarding timeliness of temporary and permanent disability payments, timeliness of benefit notices, and accuracy of permanent disability payments. Additionally, City policies and procedures should

be updated, an agreement should be established with third party vendors providing bill review and utilization review services, and a new claims processing system should be considered.

During the course of the audit, an electronic questionnaire was distributed to various comparable cities to obtain information about their Workers' Compensation Section. The results were transferred to a matrix which can be found in Exhibit A, and were shared with the Workers' Compensation management. As a result of conducting the questionnaire, Internal Audit noted that the caseload for each examiner in the City seems higher than the other Cities surveyed. The larger caseload can directly impact the timeliness and accuracy of claim processing. As a result, Internal Audit has recommended that the Workers' Compensation Section consider adding one examiner to disperse the caseload to a more reasonable amount. The timeliness and accuracy of the claims processing may be improved as a result, and the cost of the claims may also decrease since there are delay penalties associated with claims that are not processed timely.

The Observations, Recommendations and Management Responses are detailed on the following pages.

Item	Observation / Risk	Recommendation	Management Response
1.	<p>The City currently does not have written agreements with third party vendors providing bill review and utilization review services.</p> <p style="text-align: center;">* * *</p> <p>Lack of a written agreement violates City policies and forbids the City from having the ability to hold the third party vendors accountable for work performed.</p>	<p>It is recommended that the Workers' Comp. Section issue Request for Proposals for bill review and utilization review services and issue Professional Services Agreements with the vendors that are chosen.</p>	<p>The Workers' Comp. management agrees with the recommendation and will initiate a Request for Proposal for bill review and utilization review services by March 31, 2014.</p>
2.	<p>Payments and benefit notices for temporary and permanent disability benefits have been noted to be processed later than the allotted time provided by state workers' compensation regulations. In one instance, a temporary disability benefit notice was not created at all. In another instance, the amount paid for permanent disability was not calculated accurately.</p> <p style="text-align: center;">* * *</p> <p>State auditors review for timeliness of temporary disability payments and existence and timeliness of temporary disability benefit notices. Penalties are assessed based on each finding.</p>	<p>It is recommended that Workers' Comp. management consider adding one examiner to the staff size of the Section to disperse the workload of each examiner to a more manageable size. The size of the caseload for each examiner affects how timely claims and associated notices are processed. See Exhibit A for caseload comparisons to other Cities.</p>	<p>The Workers' Comp. management agrees with the recommendation. An additional examiner would get the staffing level back to what existed prior to two examiners retiring within the last two years. While there is a possible funding source for a position in the current budget, there is no authorization to increase the City's full-time equivalent headcount. Management will evaluate the options by March 31, 2014.</p>

Item	Observation / Risk	Recommendation	Management Response
3.	<p>Various established fields in the Renaissance system are not properly used to capture intended data. Additionally, Renaissance is not used to its fullest capabilities with regards to automating certain manual steps in claim processing.</p> <p style="text-align: center;">* * *</p> <p>Reports that are generated using established fields in the system will be inaccurate if the fields are not properly completed. Additionally, manual processing can create inefficiencies and may lead to errors vs. having a more automated process that is driven by system generated rules and is less prone to errors.</p>	<p>It is recommended that the most imperative fields used for report generating purposes be completed and be kept up to date. It is also recommended that the Workers' Comp. Section review the capabilities in the Renaissance system to determine what automated features can be used to improve the efficiency of claim processing. If the system is deemed to not be user friendly, a newer and more advanced system can be explored.</p>	<p>The Workers' Comp. management agrees with the recommendation and will review the imperative fields and any possible enhancements to the current system by July 31, 2014.</p>
4.	<p>Calculating Sec. 4850 benefits for safety employees is inconsistent between the Police and Fire departments.</p> <p style="text-align: center;">* * *</p> <p>There is a risk that the inconsistent calculation may be viewed as an observation during a state audit and may lead to penalties.</p>	<p>It is recommended that the Payroll Section standardize the methodology used to calculate Sec. 4850 benefits for all safety employees in the City.</p>	<p>The Payroll management agrees with the recommendation and has created an earnings code for the Police Dept. to include uniform allowance as part of non-taxable Sec. 4850 benefits.</p>

Item	Observation / Risk	Recommendation	Management Response
5.	<p>Permanent disability advance payments and delay penalties for late permanent disability payments are recorded in the wrong expense account.</p> <p style="text-align: center;">* * *</p> <p>The purpose of an account that has been established to track certain expenditures is nullified if such expenses are recorded in a different account. Tracking those expenditures becomes difficult and cumbersome.</p>	It is recommended that the Worker's Comp. Section record all payments in the appropriate accounts.	The Workers' Comp. management agrees with the recommendation and account information associated with all payment types will be reviewed and changed if needed by January 31, 2014.
6.	<p>Procedures for retaining outside counsel for claim litigation is inconsistent with City Policies and Procedures.</p> <p style="text-align: center;">* * *</p> <p>Violation of City policies and procedures may lead to inefficiencies.</p>	It is recommended that the Workers' Comp. Section follow City policies and procedures on a going forward basis for retaining outside counsel for claim litigation.	The Workers' Comp. management agrees with the recommendation and will be meeting with the City Attorney's Office in December of 2013 to discuss the requirements for obtaining outside counsel. These requirements will be followed when new Workers' Comp. attorneys are retained. Internal Audit will follow-up March 31, 2014.
7.	<p>City Administrative Policies and Procedures 4-14 have not been updated to include the current operations.</p> <p style="text-align: center;">* * *</p> <p>Outdated policies and procedures may lead to inconsistencies, misunderstanding, and contribute to lack of adherence to the policy.</p>	It is recommended that the Workers' Comp. Section update the City Administrative Policies and Procedures 4-14 to include the most current operations.	The Workers' Comp. management agrees with the recommendation and will update the Administrative Policy Manual by May 31, 2014.

Item	Observation / Risk	Recommendation	Management Response
8.	<p>The process of scanning invoices from medical providers is duplicative and inefficient. The invoices are scanned by the bill review company and again by the City.</p> <p style="text-align: center;">* * *</p> <p>Duplication of work is unnecessary and inefficient.</p>	<p>It is recommended that the Workers' Comp. Section discontinue the practice of forwarding medical invoices to the Accounts Payable Section for scanning purposes. If desired, only copies of cancelled checks to the medical providers may be scanned as document retention. The City may rely on the electronic records of the bill review company.</p>	<p>The Workers' Comp. management agrees with the recommendation and will evaluate which, if any, documents need to be scanned into FileNet, and will discontinue scanning unnecessary documents by July 31, 2014.</p>

City of Glendale
Workers' Compensation Questionnaire

Questions	Anaheim	Burbank	Glendale	Long Beach	Santa Monica	Torrance	Huntington Beach
Total number of employees served	2,356	1533	1588	5376	2176	1779	
Total Caseload	620	531	782	2574	556	750	
Cities with an in-house program:							
• How many adjusters/examiners and dedicated assistants are in the Workers' Comp. Division? Please include budgeted and vacant positions.	1 manager, 2 examiners, 2 assistants, 1 clerical. Currently, all positions are filled, but the manager is interim and 1 assistant and the clerk are temps at this time.	1 Administrator with caseload and supervision duties, 1 coordinator/senior examiner, 2 work comp technicians who do medical only and future medical claims. 1 part time clerical support.	1 administrator, 2 adjusters and 3 assistants	Total 18 budgeted positions: 1 Claim Manager, 2 Supervisors, 2 Med-Only Examiners, 4 Sr. Examiners, 2 Lifetime Medical Examiners (LTM), 1 Office Manager, 4 Claim Assistants, 2 Support Assistants.	1 WCA; 1 working supervisor; 2 exams; 1 Tech – MO/FM handling; 1 RTW coordinator; 1 clerical	2 Examiners; 2 Claims Technicians	
• Do you consider yourself adequately staffed for your City's caseload?	Yes	No, we could use a full time clerical support and 1 mid liner examiner.	No	No. I think staffing is sufficient, but we possibly need 1 more LTM Examiner.	Could use 1 more CA/clerical	I would like one more Examiner; however we have done well with the staffing we have	
• On average, what is the caseload for each adjuster/examiner?	200, inclusive of future medical. The manger carries a small caseload.	110 to 130 cases.	376	Roughly 200 claims per examiner, not including LTM Examiner, who have 600 claims each.	145	Caseloads are currently being reassigned. We have 750 open claims.	
• Are you experiencing any delays in claim processing? If so, please explain.	No	No	Yes, we are slow in processing the notice of benefits due to the high caseloads.	Very few.	Claim set ups	Claims are processed timely	
• What do you consider bottlenecks in your process that cause anticipated delays?	Things are running smoothly.	Authorization of treatment request, file quarterly updates, clerical duties performed.	Not enough staff	We experience delays when unplanned absences occur (i.e. team and project management issue)	Claim set up and 3 pt contacts	Occasionally claims fall off towards the end of the claim, when it is actually ready for settlement but a narrative still needs to be written up to request settlement authority	
• How are new claims reported?	Paper forms sent to the claims department.	The departments complete all forms and send to the work comp department for set up, processing and claims handling.	The injured employee comes into the office to file a claim.	Electronically by the Administrative Officers (AO's) in each department.	Thru Division Supervisor to WC Division	Department reports to WC division	
• What computer system do you use for claim processing? How long have you had this system and are you happy with it?	GenSource has been the CMIS for many years. It has many inadequacies, and we have budgeted to upgrade it. One of my tasks as interim is to look for alternatives.	We currently have iVos and it has been here since around 2004. Yes I am happy with the system. I do believe it may be expensive compared to other systems.	Renaissance by David.	iVOS since 2005. In general iVOS is ok for claims handling. Very unhappy with reporting capabilities and ease of reporting.	IVOS; 12 yrs and yes happy with product, although there are some pitfalls as with any system.	GenSource. Yes we are happy and have used this system for several years.	
• How often do you upgrade your system?	I believe the last major upgrade was about 2 years ago.	We have upgraded only once since 2004.	It was last updated in 2007.	Approximately every 18 months to 2 years	1-2 years	Periodic updates by vendor, approximately 2 years.	
• Do you operate a paper-less system?	No	No	No	Yes, we are paperless, except for bills, which go to our bill review company.	Quasi paperless – some of our process is paperless	All documentation is scanned into our system so that it can be viewed electronically. However due to retention policy, the hard document is then boxed and stored.	
• Do you include any extra pay types (such as those for uniform allowance, acting pay, assignment pay, etc) when calculating 4850 leave payments? If so, what pay types do you include?	Employees continue on payroll. We use a voucher method to capture pay for benefit notices, etc.	No, however it does reflect in the total benefit.	95% of additional pays. We do not include the uniform allowance as an extra pay.	Yes all extra pay types that are included with the salary are used in calculating 4850 payments.	All payments, bonus', etc.. are paid under 4850	Per our Payroll division, safety officers receive everything except uniform allowance in the paycheck.	

**City of Glendale
Workers' Compensation Questionnaire**

Questions	Anaheim	Burbank	Glendale	Long Beach	Santa Monica	Torrance	Huntington Beach
• Approximately how many litigated claims do you have in a fiscal year?	Not sure.	Approximately 10	30	Around 100 litigated claims per year (about 16% - 18% of new claims).	60 claims over past 2 yrs.	10	
• Do you have an Alternative Dispute Resolution (Carve-out) process in place?	No	No, we do not have an MPN either. I believe this is the reason for our low litigation rate.	No	Yes.	No	No	
• If yes, have you experienced any benefits from implementing this process?	N/A	N/A	N/A	Yes. The ADR program provides a fast-track for the resolution of disputes on Police and Fire claims. Within 60-90 days most disputed issues can be addressed and resolved, with binding decisions.	N/A	N/A	
Cities with an out-sourced program:							
• Please identify the company that you use and how long you have been using them.							AIMS - 3 years
• What is the annual cost of the program?							Approximately \$350,000
• How satisfied are you as an employer with the responsiveness of this company?							Extremely satisfied.
• How satisfied are your employees with the service the company provides?							Seem satisfied.
• Have you encountered any delay in processing benefits notices?							No
• Are TD and PD payments paid directly by the company or are they processed by your City?							The company.
• Approximately how many litigated cases do you have in a fiscal year?							30