



Fairfax County Public Schools Internal Audit Office

Workers' Compensation Program Administration for Fiscal Year 2005

February 2007

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Executive Summary

Our review of the administration of the Workers' Compensation Program revealed that the program appeared to be in compliance with the laws and regulations set forth by the Workers' Compensation Act and the Virginia Workers' Compensation Commission for claims with activity during fiscal year 2005. In general, the program was in compliance with the Fairfax County Public Schools (FCPS) regulations 4720.6 and 4760.4. However, there were several areas where controls could be strengthened as follows:

- Benefits office employees demonstrated knowledge of their responsibilities related to workers' compensation and there were procedures to address specific workers' compensation processes; however, comprehensive guidelines had not been formally documented.
- The "Average Weekly Wage" calculations for 10% of the 50 claims reviewed were inaccurate; however, the error resulted in minimal financial impact to FCPS and the employee.
- Liberty Mutual was utilizing the journal entry field in RISKTRAC®, Liberty Mutual's online claims management system, instead of individual informational fields to document relevant claim information thus negating the value of the field information and the system-wide report writing options available to the FCPS benefits office
- Hardcopy materials obtained from Liberty Mutual contained workers' compensation claim information from individuals not employed with FCPS.

Background

Fairfax County Public Schools (FCPS) Human Resources Benefits Office oversees the workers' compensation portion of the integrated disability management (IDM) program through a contract with the Liberty Life Assurance Company, a wholly owned subsidiary of Liberty Mutual. Liberty Mutual is responsible for issuing compensation checks for lost time and for compliance with laws and regulations as set forth by the Virginia Workers' Compensation Act. The benefits office acts as a liaison between employees, Liberty Mutual, and other concerned parties; monitors on-going claims; and provides wage information to Liberty Mutual.

The benefits office monitors workers' compensation claims primarily through the following:

- Online access to RISKTRAC® with a report writer option allowing the benefits office to query information. This query option is dependent on the relevant information fields being properly completed by Liberty Mutual staff.
- Weekly reports, provided by Liberty Mutual, that provide claims status on "Lost Time" claims.
- Weekly conference calls between Liberty Mutual and the benefits office to discuss questions or issues that have arisen over the last week and to discuss individual claims when necessary.

A workers' compensation claim begins with notification being made to Liberty Mutual by the injured party or the injured party's supervisor. The notification is typically via a phone call to

the Liberty Mutual Call Center. A Liberty Mutual case manager is assigned and the case manager obtains as much information from the caller as possible to start the claim file. The case manager will then notify a member of FCPS benefits staff, Disabilities and Leaves section, of the potential claim via a fax of the "Employee Accident Report". The case manager posts claimant information to the workers' compensation case management system, a system that only Liberty Mutual employees can access. This internal case management system transfers information, as it is posted, to RISKTRAC®. Each case is assigned a "WC" designation with a nine digit number that will be representative of the case in both the internal Liberty Mutual system as well as RISKTRAC®.

Upon notification from Liberty Mutual, the benefits office calculates an "average weekly wage" (AWW) based on the injured employee's previous 52 weeks of employment with FCPS (if there are not 52 weeks, the AWW is calculated on the number of weeks worked). This information is relayed to Liberty Mutual for use in calculating the proper amount to be paid to the employee, if the case is deemed to be compensable. Workers' compensation pays 66 2/3 % of the employee's AWW. The employee has the option of using annual or sick leave to compensate for the difference between his or her normal pay and the workers' compensation payment amount for any lost time from day one through day twenty.

Liberty Mutual is also responsible for issuing the Employee Accident Report (EAR) to the Virginia Workers' Compensation Board. This is a legal document that notifies the commission of a potential workers' compensation claim and is to be issued within seven days of the notification of the potential claim. Liberty Mutual notifies the benefits office, via fax, when the EAR is issued. Fairfax County Public Schools is subject to fines if the Employee Accident Report is not filed with the Virginia Workers' Compensation Board in a timely manner.

Workers' compensation claims are continually monitored by FCPS and Liberty Mutual until each claim is resolved. The majority of claims result in little or no cost to FCPS if the employee is able to continue working. The remaining claims remain open until all issues, medical or indemnity, have been resolved, and most of these conclude with the employee returning to work. However, some claims require coordination with the short term disability (STD) program and possibly to the long term disability (LTD) program before final resolution. In addition, there are occasional claims where a permanent disability settlement with a claimant is required.

A statistical analysis, based on data supplied by Liberty Mutual within its' annual report on workers' compensation activity to FCPS for fiscal year 2005, indicated that FCPS employee accident rates were similar to other Liberty Mutual clients based in Virginia. The most notable exception was that average cost per claim for the top ten individual claims was \$37,032 for FCPS compared to \$211,105 for the remaining Liberty Mutual clients based in Virginia.

Scope and Objectives

This audit was performed as a part of the fiscal year 2006 Annual Audit Plan and covered the period of July 1, 2004 through June 30, 2005. Our audit objectives were to determine that:

- The workers' compensation program is monitored effectively and efficiently by the Benefits Office of Human Resources.
- Liberty Mutual, as the third party administrator of the Fairfax County Public Schools Workers' Compensation program, is in compliance with the Virginia Workers' Compensation Act.

Methodology

Audit methodology included a review and analysis of 50 workers' compensation claims selected from a total of 1338 claims with activity during the audit period. Our sample consisted of various types of claims including:

- Medical claims
- Indemnity claims
- Cases with a cost in excess of \$50,000
- "Closed" claims
- "Open" claims

Our audit approach included a review of both hard copy claim information provided by Liberty Mutual and an online review of case information via Liberty Mutual's RISKTRAC® system. We reviewed claim information for compliance with Code of Virginia and FCPS workers' compensation regulations. In addition, we interviewed FCPS Benefits Office staff and, via questionnaire, Liberty Mutual staff. A statistical analysis of fiscal year 2005 information provided by Liberty Mutual was performed to compare FCPS employee accident rates to statistics for other Liberty Mutual clients based in Virginia.

The FCPS Office of Internal Audit is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We are organizationally part of the Office of the Superintendent and report directly to the Audit Committee. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the management of the department under review, the appropriate leadership team member, the Superintendent, and the Audit Committee, and reports are available to the public.

Findings, Recommendations, and Management Response

1. Workers' compensation guidelines have not been formally documented

While benefits office employees demonstrated knowledge of their responsibilities related to workers' compensation and there were procedures to address specific workers' compensation processes, comprehensive guidelines had not been formally documented. Guidelines would provide consistent direction, help ensure compliance with applicable laws and regulations, and provide guidance for training of new employees.

Recommendation: A comprehensive set of guidelines should be developed to address the workers' compensation process. The guidelines should be developed with consideration of the short term disability (STD) and long term disability (LTD) programs due to the coordination of the three programs, as well as the potential use of accumulated sick and/or annual leave.

Management Response: The FCPS Benefits Office will:

- Collect all existing FCPS workers' compensation standard operating procedures
- Review all existing FCPS workers' compensation standard operating procedures
- Update non-current FCPS workers' compensation standard operating procedures
- Identify missing FCPS workers' compensation standard operating procedures
- Develop current FCPS workers' compensation standard operating procedures
- Produce a consolidated FCPS workers' compensation standard operating procedure repository
- Train all IDM staff on updated FCPS workers' compensation standard operating procedures

The estimated date for completion is June 30, 2007.

2. Errors were noted in "Average Weekly Wage" (AWW) calculations

Five of the fifty (or 10%) AWW calculations verified contained errors. Three of the five errors were for "No Lost Time" claims therefore the incorrect calculation had no monetary consequence. Of the two remaining errors for "Lost Time", the benefits office was aware of one error and had requested a refund from the client through Liberty Mutual. The fifth error was less than one fourth of a week and had minimal financial impact. However, the process should be consistently applied to avoid errors.

Recommendation: Formal guidelines to be used to calculate an employee's AWW should be developed and utilized. The process should be developed to allow for a consistently applied methodology resulting in a zero error rate. While a report can be generated from LAWSON to provide benefits staff with the total 52 week wage, the AWW must be manually calculated based upon the schedule classification of the

employee (i.e. 12 month, 11 month, 10 month, etc.). We also recommend that the entire process be automated, to minimize the risk of errors.

Management Response: The FCPS Human Resources FasTeam will:

- Review existing Access programming for Annual Gross Wages report
- Identify the manual steps in calculating AWW that are programmable
- Make recommendations on the cost/benefit of modifying the current program
- Modify existing Annual Gross Wages program with recommended modifications
- Test modified Annual Gross Wages program for accuracy
- Implement modifications

The estimated date for completion is May 31, 2007.

3. RISKTRAC®, Liberty Mutual's client information system, did not appear to be fully utilized

Liberty Mutual did not populate all available fields in RISKTRAC® with data from workers' compensation claims. Liberty Mutual indicated a preference for using "Journal Entries" to post the majority of information related to individual workers' compensation claims. Our review of the journal entries for the test group verified that case managers were posting comprehensive information in this field and leaving the corresponding available fields blank. This lack of posting basic or incomplete information in the RISKTRAC® detail fields inhibits FCPS from being able to efficiently monitor workers' compensation claims. For example, three of the sampled claims involved a third party. RISKTRAC® has a detail data input field for identification of third party involvement; however, in each claim, the third party was posted via "Journal Entry" and was not identified in the "Third Party" field. There were several other relevant fields that were either incomplete or blank as a result of posting to journal entries. This limits the information that can be garnered through the online report option.

According to Liberty Mutual (LM), via an email response, "FCPS RISKTRAC® users can overwrite/update/delete information that they enter into the FCPS Comments Screen and FCPS Defined Fields Screen." Additionally, "FCPS and LM can overwrite information in the Location Code (overview screen) and Cause Code, Part of Body, Nature of Injure, Agency (accident/claim detail screen)." As these fields are not archived nor tracked by an audit trail, claim information may be compromised. Lastly, copies of the Employee Accident Report (EAR) are available to Liberty Mutual claim managers only through their internal claim administration system. This information is not available to FCPS on the RISKTRAC® system. While the benefits office can request information from Liberty Mutual, it appears that the RISKTRAC® would be capable of providing the information, if the system were fully utilized.

Recommendation: The benefits office should work with Liberty Mutual to fully implement the usage of RISKTRAC® to enable a more efficient and secure automated monitoring process for FCPS workers' compensation claims. The following should be considered:

- Population of all relevant workers' compensation claim detail input fields
- Expansion of online reporting capabilities
- Posting of claim document information currently maintained on Liberty Mutual's internal claim administration system to RISKTRAC® (i.e. the Employee Accident Report)
- Verification that all FCPS claim information maintained in Liberty Mutual's internal claim management system has also been posted to RISKTRAC®
- Implementation of controls to prevent the deletion or modification of previously input data without a review and approval process

Management Response: The FCPS Benefits Office will work with Liberty Mutual as follows:

- RISKTRAC® IT personnel and WC claims team representatives will meet to discuss issues in detail
- Identify all pertinent data fields maintained in the Liberty Mutual WC claims management system to be converted into RISKTRAC®
- Add SAS 70 annual report into contract as a required report to be sent to FCPS
- Prepare detailed documentation that lists IT solutions and discuss the cost/benefit and how it impacts all clients including FCPS
- Implement decisions based on cost/benefit discussions

The estimated date for completion is April 1, 2007.

4. Liberty Mutual provided copies of materials from non-FCPS clients

Several hard copy documents from non-FCPS employee claims were provided with the FCPS hardcopy documents obtained from Liberty Mutual. These documents ranged from medical documents to restaurant online sheets. The presence of these items appeared to be random. We reviewed the respective claims online and did not find any evidence that documents had been integrated into the online FCPS claim information. There are potential HIPPA violations if medical documentation was compromised.

Liberty Mutual's response to inquiries concerning the items was that they were moving toward a "paperless" workflow that would negate the possibility of reoccurrence. In addition, Liberty Mutual did not believe there was a need to notify the original owner of the materials concerning the information disclosed.

Recommendation: The benefits office should work with Liberty Mutual to determine what additional steps need to be taken to safeguard client information. In addition, there should be a formal clause in the Liberty Mutual contract addressing the confidentiality, ownership of FCPS workers' compensation claim information, and notification of improper release of such information.

Management Response: The FCPS Benefits Office will work with Liberty Mutual as follows:

- Implement electronic imaging and filing of WC claims for FCPS (May 2006)
- Add performance guarantee into WC contract and put a percentage of fees at risk
- Define a process to audit compliance

The estimated date for completion is February 28, 2007.

Other Observations

There appears to be a duplication of effort by the benefits office in the processing of workers' compensation claims. Currently, the procedure is as follows:

1. Benefits receives a weekly report (an Excel spreadsheet) from Liberty Mutual (LM) detailing the status of all FCPS employees in the WC program and the Short Term Disability (STD) programs.
2. Benefits prints reports and manually posts employee information to LAWSON. Information includes, but is not limited to, employee social security number, workers' compensation payments, payment dates and cumulative weeks of payments
3. Benefits then manually completes an "Advice to Pay" form that contains information already posted to LAWSON, see step 2 above, and forwards the form to Payroll to ensure employees with lost time are paid. The "Advice to Pay" form is required to ensure the FCPS portion (33 1/3% of the AWW) of workers' compensation payments is processed.
4. Payroll receives "Advice to Pay" form and manually inputs time records from form into LAWSON. Information contained on the form is a duplication of the information from the Liberty Mutual report that was previously manually entered into Lawson by benefits staff.

Recommendation: We recommend that an automated file interface between Lawson and Liberty Mutual be researched in order to increase the efficiency of the process and decrease the risks associated with manual processing. In addition, a potential enhancement to LAWSON should be researched to automatically address the manual processing required for payments. If the manual payment process cannot be automated, we recommend that the anticipated end date for workers' compensation be utilized as the parameter for stopping workers' compensation payroll disbursements. This would enhance continuity in the payment process, reduce the need for duplicative manual processes, and decrease the risks associated with manual processing.

Management Response: The FCPS Benefits Office will:

- Gather stakeholders to discuss the observation (Liberty Mutual, FCPS payroll, FCPS DIT, FCPS office of benefit services, FCPS HR FasTeam)
- Perform a cost benefit analysis of implementing observations
- Present LT with cost benefit analysis results
- Implement the decision from LT

The estimated date for completion is June 30, 2007.