

**Performance Audit 19-06:
Injured on Duty Program**

September 2019

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

September 20, 2019

To: Mayor Andy Berke
City Council Members

RE: Injured on Duty Program Audit (Report #19-06)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our Injured on Duty (IOD) Program audit. Our audit determined that the City's administration of the IOD Program substantially complies with the governing provisions of the Employee Information Guide (EIG) and established procedures. However, we identified key opportunities to improve IOD claims management functions and strengthen internal controls to prevent fraud, waste and abuse.

In order to address the noted areas for improvement, we recommended actions to increase management oversight over IOD third-party administrators and reduce the impact of inherent fraud risks.

We would like to take this opportunity to thank the management and staff of the Human Resource Department for their courtesy, cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Stacy Richardson, Chief of Staff
Maura Sullivan, Chief Operating Officer
Daisy Madison, Chief Financial Officer
Beverly Moultrie, Director of Human Resources
Tyna Hector, Deputy Chief Human Resource Officer and IOD Program Director
Starla Benjamin, IOD Program Manager
Jim Arnette, Tennessee Local Government Audit

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2019 Audit Agenda. The objectives of this audit were to determine if:

- a) the administration of the Injured on Duty (IOD) Program complies with the governing provisions of the City's Employee Information Guide (EIG) and IOD claim procedures; and
- b) the IOD Program has adequate controls and safeguards to detect and prevent fraud, waste and abuse.

BACKGROUND

The City's IOD Program provides compensation and medical expense coverage to employees who sustain job-related injuries, illnesses or occupational diseases.¹ The program is administered by the Human Resource (HR) Department under the direction of the IOD Program Director. The IOD Program Director is ultimately responsible for determining whether employees are entitled to receive compensation and/or benefits under the program.

The City currently contracts with a third-party administrator, Collins & Company (alternatively referred to herein as the "TPA"), for claims administration and risk management services.² The TPA is responsible for reviewing claims and making recommendations to the Program Director regarding settlement and medical expense compensability. The TPA pays approved claims from an account funded by the City.

The City also contracts with Marathon Health ("Marathon") to assign nurse case managers to each claim.³ Marathon case managers and clinicians are responsible for coordinating patient care and treatment until the employee has reached Maximum Medical Improvement and, if necessary, a permanent impairment rating has been assigned.

The IOD Program provides compensation to eligible employees at the rate of seventy-five percent (75%) of pay until Maximum Medical Improvement. However, employees are not entitled to compensation or medical expense payments resulting from:

- Activities outside the normal course and scope of employment;

¹ The City has elected not to participate in the Tennessee Worker's Compensation program pursuant to T.C.A. § 50-6-106(1)(B)(6). Refer to *City Ordinance No. 12413*

² Collins & Company has been the City's IOD claims administrator since 2012.

³ Marathon is a third-party health care provider that provides on-site occupational medical services for on-the-job injuries and incidents.

- Injuries or illnesses resulting from being under the influence of alcohol or narcotics;
- Injuries resulting from misconduct or horseplay;
- Intentional or self-inflicted injuries;
- Failure or refusal to use safety devices and/or personal protective equipment; failure to properly perform duties; or failure to follow general safety precautions;
- Injuries or illnesses aggravated by off-duty activity;
- Injuries traveling to and/or from work;
- Pre-existing injuries or conditions.

Employees may appeal adverse claim decisions by requesting a hearing before an administrative law judge within thirty (30) days following written notification of the final decision. Failure to request a hearing within thirty (30) days of the final decision constitutes a waiver of the right to appeal.

Financial Information

Exhibit 1. IOD Compensation and Benefits

	FY2017	FY2018	FY2019
<i>Total Claims</i>	196	198	181
<i>Claim Payments</i>	\$3,098,295	\$2,631,757	\$2,607,847
<i>Pharmacy</i>	\$275,711	\$233,357	\$171,460
<i>Administration</i>	\$74,400	\$74,400	\$75,000

Source: Oracle

FINDINGS AND RECOMMENDATIONS

Streamline and Improve the Injured on Duty Claim Management Process

Our audit determined that the administration of the IOD Program substantially complies with the governing provisions of the EIG and established procedures. However, we identified key opportunities (discussed below) to streamline and improve claims management functions.

We found that IOD claim decisions were sometimes delayed due to the length of time it typically takes for Marathon clinicians to make fit-for-duty determinations and furnish Work Status reports to the TPA.⁴

⁴ The TPA is required to determine compensability of the claim within 14 calendar days of receipt of the file.

Moreover, in many cases, the TPA reviewed only a portion of the employees' medical records prior to determining compensability because Marathon did not provide the TPA access to the records. The TPA agreement requires a thorough review of all pertinent medical records as part of every claim evaluation.⁵

In addition, we examined a sample of IOD claims from the audit period and noted the following⁶:

- The TPA did not always obtain all pertinent medical records prior to determining compensability and making benefit recommendations to the Program Director.
- The TPA did not always notify the City regarding potential third-party negligence as a contributing factor.
- The TPA did not provide the results of quarterly claim file audits as required by the TPA agreement.
- The TPA did not conduct quarterly conference calls with City personnel to discuss claim issues, trends, performance, and areas of improvement as required by the TPA agreement.

We recommend the IOD Program Director, or designee, take the following actions to streamline and improve the IOD claim management process:

Recommendation 1: Determine the cause for systematic delays by Marathon in providing Work Status reports to the TPA, and develop a process to streamline delivery where practical and appropriate.

Auditee Response: *We concur with the audit finding and recommendation.*

Recommendation 2: Increase oversight over the TPA to ensure claims are properly investigated, all pertinent medical records are obtained and reviewed prior to determining compensability, and the City is timely notified whenever third-party negligence is a likely contributing factor.

⁵ The TPA is required to review employee medical records to determine if: 1) recommended medical treatment is appropriate for the injury/occupational illness; 2) the employee has complied with the advice of the medical provider; and 3) the employee has a preexisting medical condition excluded from coverage.

⁶ We did not assess IOD claim recommendations or compensability decisions.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 3: Request and review the results of random quarterly claim file audits performed by the TPA.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 4: Conduct quarterly conference calls with the TPA to discuss claim issues, trends, performance, and areas of improvement.

***Auditee Response:** We concur with the audit finding and recommendation.*

**Develop and
Implement
Effective Controls
to Prevent Fraud,
Waste and Abuse**

We concluded that the IOD Program lacks comprehensive policies, procedures and controls to: a) detect and prevent fraud; b) identify red flag indicators of fraud; c) document and define roles and responsibilities relative to fraud risk governance; and d) convey expectations relative to managing fraud risks.

We also identified the following internal control weaknesses that could potentially create an environment for fraud, waste and abuse to occur:

- The IOD Program has no formalized process or controls to detect and prevent fraud, waste, and abuse. Fraud prevention and detection procedures are undocumented, and driven in a reactive manner by users and events.
- The IOD Program has not performed a fraud risk assessment to identify and respond to emerging fraud risks.
- The IOD Program does not have documented anti-fraud procedures that include red flag indicators of potential fraud; nor does the Program offer anti-fraud training to employees.
- The IOD Program does not maintain an anonymous fraud tip hotline—or reference to the City-Wide Fraud, Waste and Abuse hotline—to facilitate internal or external reports of suspected fraud. Furthermore, the TPA does not have any documented policies or procedures to ensure consistent, reliable investigations of suspected fraudulent claims.
- The IOD Program does not employ proactive data analytics to detect and prevent fraud. Additionally, management does not continuously monitor fraud risks to determine whether, and to

what extent, additional controls may be required to safeguard against fraud, waste, and abuse.

We recommend the IOD Program Director, or designee, take the following actions to reduce fraud risks and achieve a higher level of anti-fraud program maturity:

Recommendation 5: Establish a comprehensive fraud risk management policy that includes red flag indicators of fraud. Document and define roles and responsibilities of personnel as it relates to fraud risk governance within the policy.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 6: Develop a comprehensive IOD anti-fraud training program and require employees to attend on an annual basis.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 7: Develop and implement a fraud risk assessment methodology based on the Committee of Sponsoring Organizations (COSO) Fraud Risk Management Guide leading practices.⁷

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 8: Consider implementing a system of data analytics to identify anomalous claims, transactions, or events for further investigation. Consider using data analytic software to detect potential fraud, waste and abuse.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 9: Promote an effective fraud tip reporting process with 24/7 availability, multilingual and anonymous reporting

⁷ To provide best practice guidance for organizations to follow, COSO partnered with the Association of Certified Fraud Examiners (ACFE) in 2016 to create the *Fraud Risk Management Guide*. The joint report is designed to aid organizations in establishing an effective fraud risk management program.

capability, and multiple reporting channels, *e.g.*, phone, email, internet. Anonymous reporting could be facilitated by promoting the City-Wide Fraud, Waste and Abuse Hotline.

Auditee Response: *We concur with the audit finding and recommendation.*

Recommendation 10: Develop a continuous monitoring process for program evaluation and remediation of identified deficiencies to ensure roles, responsibilities, and processes are clear and well-defined.

Auditee Response: *We concur with the audit finding and recommendation.*

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the IOD Program administration from July 1, 2017 to June 30, 2019. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from archived records and the Oracle system. Original records as well as copies were used as evidence and verified through physical examination.

To develop our recommendations, we researched applicable state law and City code requirements, reviewed established IOD policies and procedures, examined the TPA agreement to understand performance requirements, analyzed claim files and case records, interviewed City and third-party personnel, performed a fraud risk analysis using the COSO Fraud Risk Management Guide, and conducted a detailed assessment of best practices for preventing fraud, waste and abuse.

The sample size and selection of the IOD claims we reviewed were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

We conducted this performance audit from June 2019 to August 2019 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.

City of Chattanooga Fraud, Waste, and Abuse Hotline

Internal Audit's Fraud, Waste, and Abuse Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any City facility or department.

Internal Audit contracts with a hotline vendor, Navex Global, to provide and maintain the reporting system. The third party system allows for anonymous reports. All reports are taken seriously and responded to in a timely manner. Reports to the hotline serve the public interest and assist the Office of Internal Audit in meeting high standards of public accountability.

To make a report, call 1-877-338-4452 or visit our website:
www.chattanooga.gov/internal-audit