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# **CITY OF SAN ANTONIO**

## **OFFICE OF THE CITY AUDITOR**



Audit of Finance Department  
Workers' Compensation Fund and Program  
Project No. AU15-013  
December 9, 2015

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department's Workers' Compensation Fund and Program. The audit objectives, conclusions, and recommendations follow:

### **Is the Workers' Compensation Fund and program managed appropriately and in compliance with regulatory requirements?**

Yes, the Workers' Compensation Fund and Program is managed appropriately and in compliance with regulatory requirements.

The Finance Department, in conjunction with TriStar Risk Management, have developed and implemented adequate controls to effectively manage and monitor the program and to comply with Texas Department of Insurance regulatory requirements. Through these controls, the City effectively manages the following workers' compensation related areas:

- 1) Compliance to laws and regulations
- 2) Accurate calculation and payment of claims
- 3) Appropriate approval and denial of claims
- 4) Contract compliance with TriStar Risk Management
- 5) Workers' compensation fund review and reconciliation
- 6) Oversight of the Workers' Compensation Program
- 7) Certain cost-saving measures

In addition to reviewing the City's existing workers' compensation program controls and processes, we evaluated the program for possible improvements and enhancements. In an effort to further improve the City's Workers' Compensation Program, we make the following recommendation:

The Director of Finance should expedite the process for selecting and entering into a citywide Certified Health Care Network for the entire Workers' Compensation Program to realize cost-savings while receiving the same service quality.

The Finance Department's verbatim management responses are included in **Appendix B**.

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## Background

In Texas, the workers' compensation (WC) program is a state-regulated insurance system that provides covered employees with income and medical benefits if they are injured on the job or have a work-related injury or illness.

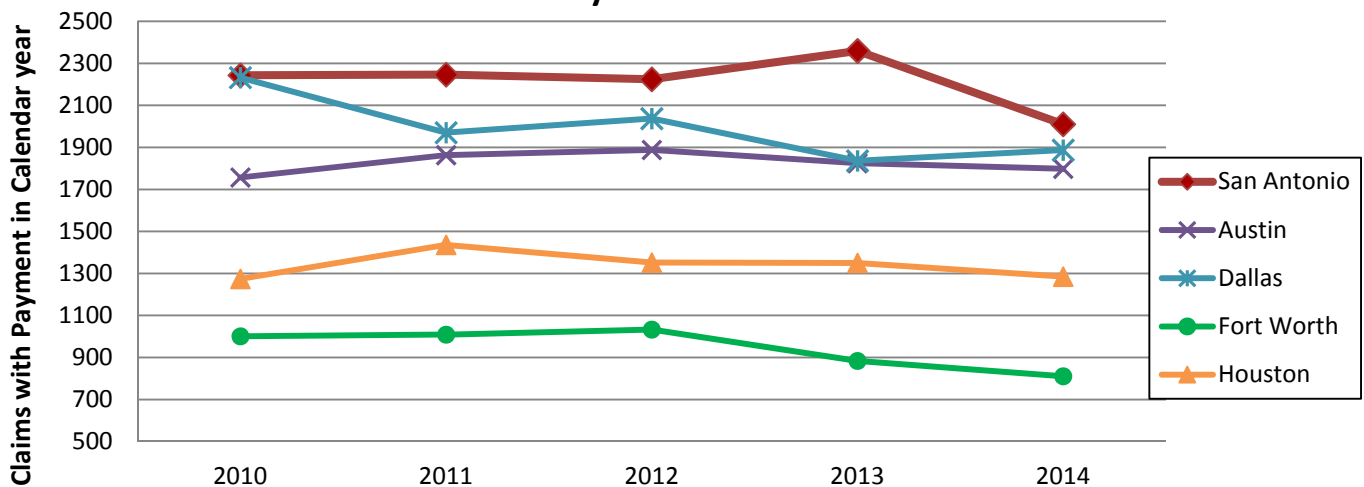
Under workers' compensation law, an injury or illness is compensable without regard to fault, if it was sustained in the course and scope of employment; this includes injuries sustained during work-related travel. Injuries are not covered if they were the result of the employee's horseplay, willful criminal acts or self-injury, intoxication from drugs or alcohol, voluntary participation in an off-duty recreational activity, a third party's criminal act if directed against the employee for a personal reason unrelated to the work, or acts of God. Workers' compensation insurance coverage also limits an employer's liability if an employee brings suit against the employer for damages.<sup>1</sup>

Private employers can choose whether or not to carry workers' compensation insurance coverage. Subscribing to workers' compensation insurance puts a limit on the amount and type of compensation that an injured employee may receive - the limits are set by the Texas Department of Insurance (TDI). Without a workers' compensation program workers could sue a company for damages well in excess of the standards.

### Workers' Compensation Trends in Texas

Since 2010, as a whole, the number of workers' compensation claims for the major cities in Texas has slowly decreased. The City ranked highest in total number of claims with at least one payment per year.

**Texas Municipal Reported Number of Workers Compensation Claims  
with Payments Per Year**

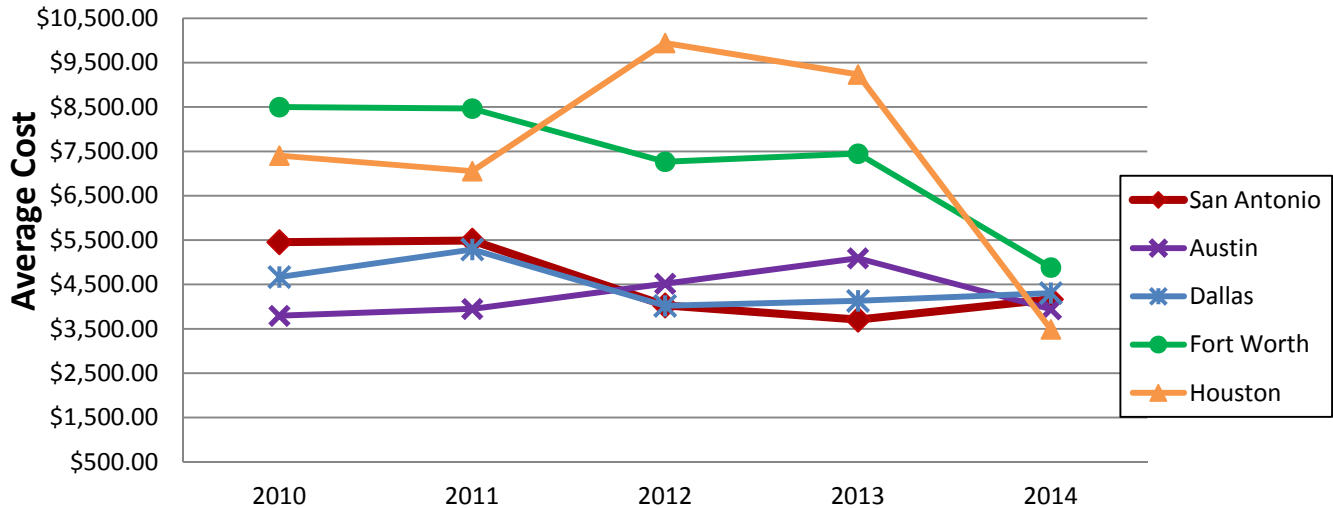


**Note:** Data used in this chart was collected by the COSA's Finance Department from each of the named Cities.

<sup>1</sup> <https://www.tdi.state.tx.us/WC/employer/index.html>

Additionally, on average, the cost per accepted workers' compensation claim in Texas city's has decreased since 2010.

### Texas Municipal Reported Average Cost of Workers Compensation Claim by Year



Note: Data used in this chart was collected by the COSA's Finance Department from each of the named Cities.

#### The City's Workers' Compensation Program

The City of San Antonio is self insured for workers' compensation. This means that en-lieu of paying premiums to a third-party insurance company, the City incurs all costs related to workers' compensation claims. The following shows the operating budget for the workers' compensation fund and program for the last five years.

Fiscal Year	Budgeted (Adopted)	Actual
FY2011	\$16,687,094	\$17,389,346
FY2012	\$17,601,342	\$16,334,491
FY2013	\$18,055,577	\$12,892,350
FY2014	\$16,939,316	\$12,562,238
FY2015	\$14,404,012	*\$15,180,185
* Estimated Amount		

The City's workers' compensation program is overseen and managed by the Finance Department Workers' Compensation section of the Claims Administration group and consists of four positions:

- One Assistant Risk Manager
- One Senior Risk Analyst
- Two Workers Compensation Coordinators

<b>Year (Calendar)</b>	<b>Number of Submitted WC Claims</b>
2010	2,272
2011	2,134
2012	2,192
2013	2,046
2014	2,026
<b>Total</b>	<b>10,670</b>

The City contracts with TriStar Risk Management to manage workers' compensation claims from the time a claim is submitted by the Human Resource Specialist, all the way through the close-out of the claim. TriStar acts as the City's claims reviewer, adjuster, payment processor, and main point of contact with the injured employee. TriStar uses Argus Services Corporation (a third party medical reviewer) to review all requested treatments for medical

necessity and to verify that the fees and costs are appropriate.

From 2010 through 2014, the City received an average of 2,134 workers' compensation claims per calendar year. There are four types of claims; 1) report-only, 2) medical-only, 3) indemnity, and 4) death. 'Report-only' is simply a notice of an injury with no medical treatment or lost time. 'Medical-only' is a claim where the employee receives medical treatment; however, the employee can still perform his/her job function and returns to work. An 'indemnity' is a claim where the employee receives medical treatment and is unable to return to work. Finally, a 'death' claim is where an employee has a fatality while performing work related duties. Each claim is reviewed by TriStar to determine if the claim is compensable.

<b>Average Yearly Submitted WC Claims by Type 2010 - 2014</b>	
<b>Claim Type</b>	<b>Number</b>
Death	1
Indemnity	583
Medical Only	799
Record Only	751
<b>Total</b>	<b>2,134</b>

## Audit Scope and Methodology

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The audit scope included all workers' compensation claims from January 2012 to April 2015.

To establish our test criteria, we examined department internal and external policies and procedures, city ordinances, Texas Labor Code, Texas Department of Insurance (TDI) rules, Division of Workers' Compensation (DWC) rules, and contractual agreements with TriStar Risk Management.

We interviewed department management and staff to gain an understanding of the Workers' Compensation Fund and Program including the process of claim creation, review, approval, payment, and obligations.

We tested compliance to laws and regulations, compensation claim accuracy, appropriate approval and denial of claims, contract compliance with TriStar, existence of adequate policies and procedures, and review and reconciliation of the Workers' Compensation fund. We also investigated potential fraudulent compensation claims as well as cost-saving methods.

We relied on reports and stored data from SAP, TriStar's VOS and iStar Systems including extracts of claims and claims related data, submitted workers' compensation forms, medical bills, supporting emails, and reconciliations to validate the daily aspects of the City's workers' compensation program managed by TriStar.

Controls for the VOS system are managed and maintained by TriStar Risk Management. We obtained, reviewed and relied on a Service Organization Control (SOC) 1 report performed by Deloitte and Touche LLC, in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization. This report, provided by TriStar for the audit period of October 1, 2013 to September 30, 2014, specifically evaluates and reports on the results of reviews and tests of the effectiveness of the information systems' controls related to the VOS/iStar systems and TriStar Risk Management's processes. As such, we did not conduct separate procedures to test the application or general controls of these systems.

We conducted this performance audit 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.

## Audit Results and Recommendations

After a thorough review the workers' compensation controls and processes, we determined that the City's Workers' Compensation Fund and Program are appropriately managed and in compliance with regulatory requirements of TDI and DWC.

### A. Certified Health Care Network

The City does not use a certified Health Care Network (HCN) for the Workers' Compensation Program.

A certified HCN plan is similar to Health Maintenance Organization and Preferred Provider Plans in that claimants are required to seek medical attention for work-related injuries from a physician that is within the certified HCN. Often doctor and medical services under a HCN are provided at reduced or discounted rates. The Managed Care Quality Assistance Office within the Texas Department of Insurance is responsible for the certification and regulation of Certified Health Care Networks.

The Finance department has been evaluating switching to a HCN for several years. In 2013, the Finance department contracted with Injury Management Organization, Inc. (IMO) to perform a cost and benefit analysis for the City using a HCN. We reviewed IMO's HCN analysis report and the 2014 Texas Department of Insurance's (TDI) Workers' Compensation Report Card. The comparative analysis conducted by IMO projected cost savings/cost avoidance to the City of \$2,556,054 (or approximately 18% of the operating budget for the workers' compensation fund and program) in the first year of entering an HCN.

IMO's cost avoidance projections are based on the savings realized by a city similar to San Antonio in the first year after entering a certified HCN. IMO applied similar savings percentages and usage of medical services from the comparable city to the City of San Antonio's current costs to project the cost avoidance figures represented in the table below.

City of San Antonio Projected Cost Avoidance in First Year of Certified HCN						
Medical Expense Area	Chiropractic	Primary Care Physicians	Hospital	Medications	Physical Therapy	Total
Current Cost	\$814,844	\$1,786,790	\$1,179,449	\$224,445	\$244,506	\$4,250,033
1st Year Projected Costs	\$18,821	\$877,080	\$433,990	\$35,305	\$328,784	\$1,693,979
Cost Avoidance Projection	\$796,023	\$909,710	\$745,459	\$189,140	(\$84,278)	\$2,556,054
Source: City of San Antonio Analysis of HCN Network report performed by the Injury Management Organization, Inc.						



Additionally, the trend analysis included in the 2014 TDI Workers' Compensation Report Card shows an increasing disparity between network and non-network costs over recent years (2010-2014). Specifically, network costs have decreased at a rate of 7% and non-network costs have increased at a rate of 21%.<sup>2</sup>

The Texas Department of Insurance's 2014 Workers' Compensation Report card survey results also showed favorable results for the majority of network entities compared to non-network entities in several non-monetary areas of the workers' compensation process. These including hospital utilization, ease of access to care, satisfaction with care, and employees' overall health outcome.

The following chart summarizes the main non-monetary benefits of switching to a HCN:

Area	Non-Monetary Benefit of HCN
<b><i>Hospital Utilization</i></b>	<b>Lower Use of Hospital Services and Fees:</b> Networks tend to have higher utilization of professional and pharmacy services than non-networks; however, networks tend to have lower use of hospital services than non-networks.
<b><i>Access to Care and Satisfaction with Care</i></b>	<b>Improved Quality of Medical Care:</b> The majority of network entities reported higher or equal levels of receiving needed care than non-networks.
	<b>Receiving Prompt Medical Care:</b> Injured employees from the majority of networks reported higher levels of receiving care quickly as compared to non-network injured employees.
	<b>More Accurate Medical Diagnoses:</b> The majority of networks reported higher or equal level of agreement with their treating doctors than non-network injured employees.
<b><i>Return to Work</i></b>	<b>Faster Recovery and Return to Work:</b> All network entities reported higher return-to-work rates than non-networks.
<b><i>Health Outcomes</i></b>	<b>Better Post-Injury Recuperation:</b> The majority of network entities had higher physical functioning scores among their injured employees than non network injured employees.
	<b>Better Post-Injury Mental Health:</b> The majority of network entities surveyed had higher mental functioning scores among injured employees than non-network injured employees and the U.S. population.

<sup>2</sup> 2014 Texas Department of Insurance Workers' Compensation Report Card

Overall, the IMO's analysis projected that the City could reduce the cost of the workers' compensation program by \$2.5 million dollars in the first year by using a HCN.

If the City does not utilize a HCN in its workers compensation program, the City could forgo significant potential cost savings related to workers' compensation claims.

### **Recommendation**

The Director of Finance should expedite the process for selecting and entering into a citywide Certified Health Care Network for the entire Workers' Compensation Program to realize cost-savings while receiving the same service quality.

## **Appendix A – Staff Acknowledgement**

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Mark Bigler, CPA-Utah, CISA, CFE, Audit Manager  
Matt Howard, CISA, Auditor in Charge  
Daniel Kuntzelman, Auditor

## Appendix B – Management Response

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### CITY OF SAN ANTONIO

P.O. Box 839966  
SAN ANTONIO TEXAS 78283-3966

November 13, 2015

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor  
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Finance Department  
Workers' Compensation Fund and Program

Finance department has reviewed the audit report and has developed the Corrective Action  
Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<b>Certified Health Care Network</b>  The Director of Finance should expedite the process for selecting and entering into a citywide Certified Health Care Network for the entire Workers' Compensation Program to realize cost-savings while receiving the same service quality.	5	Accept	Debra Ojo, MPA/Asst. Finance Director/Risk Manager	October 30, 2016

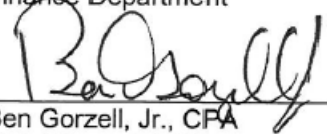
Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b> In 2013 the City conducted a national recruitment for an Assistant Finance Director/Risk Manager to manage the Risk Management functions for the City of San Antonio. Upon conclusion of the search an Assistant Finance Director/Risk Manager, was recruited from the City of Dallas. Ms. Debra Ojo joined the City of San Antonio with over 18 years experience in developing and implementing program improvements in risk management and occupational health and safety. Ms. Ojo performed an overview of the Division of Risk Management and identified several opportunities to improve the City's current program. Those recommendations were prioritized strategically as follows:</p> <ol style="list-style-type: none"> <li>1. Reorganization of the Division / Process Improvements [Completed]</li> <li>2. Transfer general liability claims handling internally [Completed]</li> <li>3. Development of a Citywide Safety Program [In process]</li> <li>4. Nurse Case Management (NCM) Program [Ongoing]</li> <li>5. Implementation of a Certified Healthcare Network (HCN) [In process]</li> </ol> <p><b>1. Reorganization of the Division/Process Improvements [Completed]</b> The Division was reorganized to more appropriately align staff with operations. Each unit was tasked with completing operations manuals, process flow charts and revising all administrative directives. Through this exercise, inefficiencies were identified and process improvements implemented.</p> <p><b>2. General Liability Claims Handling [Completed]</b> The City contracted with Tristar Risk Management for workers' compensation and general liability claims handling. By segregating the general liability claims and transferring those services internally, it was projected that the City could save \$732,000 over the remaining 24 months of the existing contract. Effective January 1, 2015, an internal claims unit was established. This improvement consisted of development of CoSA's Claims Practice, software leasing, claims files transfer/review, hiring and training staff (claims manager, 2 claims assistants and 3 claims adjusters).</p> <p><b>3. Development of a Citywide Safety Program [In process]</b> Finance embarked on creating a culture of safety throughout the City with an emphasis on reducing workers' compensation injuries and costs through preventative safety measures. The framework for developing the Citywide Safety Program began in October, 2014 by expanding the safety staff from 5 to 15 (inclusive of 7 shared positions); revising all administrative directives and City safety manual; implementing a hepatitis training and testing program; and expanding the City's alcohol and drug testing programs to include reasonable suspicion for all employees and non-DOT random testing programs. The Division also began identifying preventable accidents and injuries and is mitigating those exposures through increased facility safety inspections and safety training. In addition, the Division has standardized all accident and injury review boards across the city.</p> <p><b>4. Nurse Case Management (NCM) Program [Ongoing]</b> To assist with reducing the cost of workers' compensation, the City began utilizing nurse case management (NCM) on its workers' compensation claims. NCM involves assigning nurses to assist employees with returning to workplace or who are not progressing according to medical disability guidelines. NCM was also assigned to all claims that have been open greater than five years.</p> <p><b>5. Implementation of a Certified Healthcare Network (HCN) [In process]</b> In 2005, the Texas Legislature passed House Bill 7 allowing employers the opportunity to manage their workers' compensation costs thru a Certified Healthcare Network (HCN). The HCN is a network of contracted physicians credentialed in workers' compensation. The most significant change with the HCN is provider choice; the HCN requires all treating physicians to be within the Network. Currently, the City of Dallas, the State Office of Risk Management and the University of Texas System are participating in a HCN.</p> <p>With Ms. Ojo's prior experience implementing HCNs and knowledge of the significant cost savings associated, it was recommended to conduct a feasibility study on its impact to the City. Injury Management Organization (IMO) conducted the study and reported several benefits: employees would experience easier access to medical care; there would be early medical intervention on their claims; employees would experience better medical management of their claim; and there would be significant cost savings to the City's workers' compensation fund. A Request for Proposal (RFP) for the HCN has been developed and is pending release. The evaluation selection process will be concluded and a provider selected by September 30, 2016.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

  
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Troy Elliott, CPA  
Finance Director  
Finance Department

11/16/15  
Date

  
\_\_\_\_\_  
Ben Gorzell, Jr., CPA  
Chief Financial Officer  
City Manager's Office

11/16/15  
Date