



City of Austin

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To: Mayor and Council Members

From: Stephen L. Morgan, CIA, CGAP, CFE, CGFM
City Auditor

Subject: Workers' Compensation Audit Results

The City of Austin's Workers' Compensation Program is managed by the City's Human Resources Department; the FY 02 Budget in the Workers' Compensation Fund was approximately \$9.5 million. While the City is responsible for managing the day-to-day operations of the program, the Human Resources Department has contracted with a Third Party Administrator (TPA) to process all Workers' Compensation claims. The TPA of record during the period we reviewed was Ward North America. As of March 2002, the City of Austin entered into a new contract with JI Companies, to serve as the City's new Workers' Compensation TPA.

The Workers' Compensation Program provides payments mandated by state law for City employees' medical expenses associated with job-related injuries and illnesses. The fund also compensates eligible individuals with indemnity payments as required by the State of Texas. In addition, the fund supports other related activities such as safety programs and the Return to Work program. Workers' Compensation expenses are funded entirely by transfers from the General Fund and other City of Austin funds.

The purpose of this project was to examine the database of medical claims paid to providers, administered by the TPA, and identify potential duplicate payments during a three-year period from February 1999 to

February 2002. The total value of claims processed during that time was \$11,448,307. The Office of the City Auditor (OCA) opted to hire a consultant with expertise in workers' compensation claims to conduct an independent review and analysis of client provided data. OCA selected Trinity Internal Audit Services/Consultants to perform the review and analysis of the claims. This work was done in two phases; the first phase involved identifying the potential duplicate payments, while the second phase involved a detailed review of the claim files. Once potential duplicates were identified, staff in the City's Human Resources Department (HRD) selected a sample of the claim files for review to determine if actual duplicate payments were made. While the potential for other errors associated with claim payments exists; such as payment for unallowable services, or fraudulent billing, the scope of our work in this project was limited to determining if claim payments had been duplicated during the period under review.

This audit was conducted in accordance with generally accepted government auditing standards.

After conducting a review of claim files identified as potential duplicate payments, we have reasonable assurance that duplicate payment of workers' compensation claims was not a significant undetected condition under the City's previous TPA. Inspection of the claim files revealed that the majority of questioned payments were for services that were not included in the original medical bill, and not a duplication of payment on the claim. Staff from OCA and HRD identified approximately \$13,000 in duplicate payments, which have been forwarded to the City's Law Department for collection processing. An additional \$13,000 in duplicate payments had been identified prior to our review, and had been refunded to the City's Workers' Compensation Fund.

Five claims representing approximately \$13,000 in duplicate payments have been forwarded to the City's legal department to begin collection procedures. Using the data supplied by the consultant, staff in the OCA and the HRD selected a sample of the medical claim files for review to determine if payment for claims were actually duplicated, focusing our attention on the highest dollar claims identified by the consultant. Our intent in conducting the sample was to determine whether to proceed to phase two of the consultant's contract. The team reviewed a number of medical claims representing a total of approximately \$72,000, or 53 percent of the estimated duplicate payments. Based on this review, we determined that overpayments had been made on five of these claims, with one claim alone representing almost \$7,900 (approximately 61 percent) of the total. Copies of all pertinent documents

have been forwarded to the City's Law Department who will pursue collection activities.

Ultimately, OCA and HRD staff carried out the detailed review of claim files that was anticipated in Phase Two of the consultant's contract on the largest potential duplicate claims in our sample. Based on the outcome of our review of the medical claim files, and the time and expense associated with this review, OCA and HRD staff decided not to pursue the second phase of the consultant's contract, which involved reviewing the medical claim files to determine the extent of actual duplicate claims. The consultant had proposed a \$5,000 fee to conduct the medical claim files research. While it is possible that additional duplicate payments may exist, we believe that the cost to research additional claims would very likely outweigh the potential recovery. With that in mind, we have decided to waive additional work in this area. We will continue to monitor the progress of the collection efforts currently underway by the City's legal staff.

Prior to this audit, the City had already recovered approximately \$13,000 in duplicate payments. During the three-year period we reviewed, HRD staff, the TPA and medical providers had identified and processed approximately \$13,000 in reimbursements for overpayments on Workers' Compensation claims. Funds from these reimbursements were re-deposited into the City's Workers' Compensation Fund; however, this information was not entered into the claims database that was forwarded to OCA's consultant.

Approximately one percent of the dollar value of the Workers' Compensation claims processed during the three years under review was identified as potential duplicate payments. Utilizing computer data files provided by the City's Workers' Comp TPA, OCA's consultant identified approximately \$136,000 of potential duplicate payments. The range of the potential duplicate payments was between less than \$1.00 to just over \$9,000, with the overwhelming majority (over 90 percent) of these claims falling under \$500.00. The consultant identified the potential duplicates by isolating the files by claim number, date of service, service provider, type of service and the claim amount. It should be noted, that this phase of the work was done without benefit of the actual claim file. Actual duplicate payments, and the amount of any overpayment could not be known until the files were reviewed to determine if payments were in fact duplicated.

The majority of the cases we reviewed were not duplicate payments, but had additional claim payments for services that for a number of reasons were not included, or not paid, in the original bill. For example, a large number of claims for Emergency Room (ER) visits were identified as

possible duplicate payments since the claim file appeared to contain the characteristics that met the audit criteria. However, further inspection of the files revealed that one payment was for the hospital, the other for the treating physician. In these cases, the root provider number was the same, however the distinguishing characteristic was the suffix indicating one for the hospital, and a separate one for the ER physician. Another large group of claims were dismissed when we identified that additional payments were made to reimburse providers for discounts approved by the TPA, that the City was ineligible to receive.