

UC MERCED AUDIT AND ADVISORY SERVICES

January 12, 2016

To: Michael Reese – Vice Chancellor for Business and Administrative Services

Subject: Audit of Workers' Compensation Insurance Practices

Ref: Report No. M16A003

Internal Audit has completed an audit of UC Merced's workers' compensation insurance practices, which was part of the Fiscal Year 2015 – 2016 Audit Plan. The new leadership over this area has put together management corrective actions for the issues identified. We will follow up to verify that management corrective actions are completed.

We appreciate the help we received from Risk Services staff and from the Third Party Administrator during this audit.



Todd Kucker
Internal Audit Director

Attachment

cc: SVP Vacca
Chancellor Leland
Associate Chancellor Putney
Assistant Vice Chancellor Vasquez
Director Ott
Risk Manager Castillo

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

**UC Merced's Workers' Compensation Insurance Practices
Report No. M16A003**

January 12, 2016

Work Performed by:
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Management Summary

Internal Audit has completed an audit of UC Merced's management of workers' compensation insurance claims. During recent years, workers' compensation insurance costs have rapidly increased at UC Merced. The purpose of the audit was to review recent procedures related to managing workers' compensation insurance claims and to identify the causes of these increasing costs.

The Human Resources employee tasked with managing the workers' compensation insurance program during many years left UC Merced in July 2015. Responsibilities for managing workers' compensation insurance were transferred out of Human Resources to Risk Services. This audit focused on incidents and claims that began during Fiscal Year 2014 – 2015 which were managed by the former employee.

To complete the audit, we discussed procedures with UC Merced employees and employees at the Third Party Administrator who have a role in managing workers' compensation insurance claims for UC Merced. We also reviewed documentation related to specific claims.

From our audit, we concluded that procedures related to workers' compensation insurance claims need improvement. Ineffective management of claims during the last few years and inadequate resources devoted to the workers' compensation insurance program have contributed to the significant increases in rates. These increasing rates and costs affect every department on campus.

We identified issues in these areas that are discussed in the following report:

- Poor control over the amount of time required before employees return to work
- Ineffective review and monitoring of claims
- Untimely follow up for employee ergonomics-related issues

To get control of workers' compensation insurance costs, the new management over the program should allocate sufficient resources and formalize procedures and expectations related to claims.

Objectives and Scope

Internal Audit has completed an audit of UC Merced's management of workers' compensation insurance claims, which was part of the Fiscal Year 2015 – 2016 audit plan. The purpose of the audit was to review procedures related to managing workers' compensation insurance claims and to identify the causes of increasing rates. The objective of the audit testing was to determine whether processes and controls could be set up to improve the management of workers' compensation insurance claims.

To effectively manage workers' compensation insurance claims requires collaboration between UC Merced employees and the third party administrator (TPA) contracted to pay these claims. While the audit reviewed information in the TPA's system, the scope of the audit focused on the

performance of UC Merced employees who have a role in managing the different aspects related to these claims. To fulfill the objectives, Internal Audit completed the following testing.

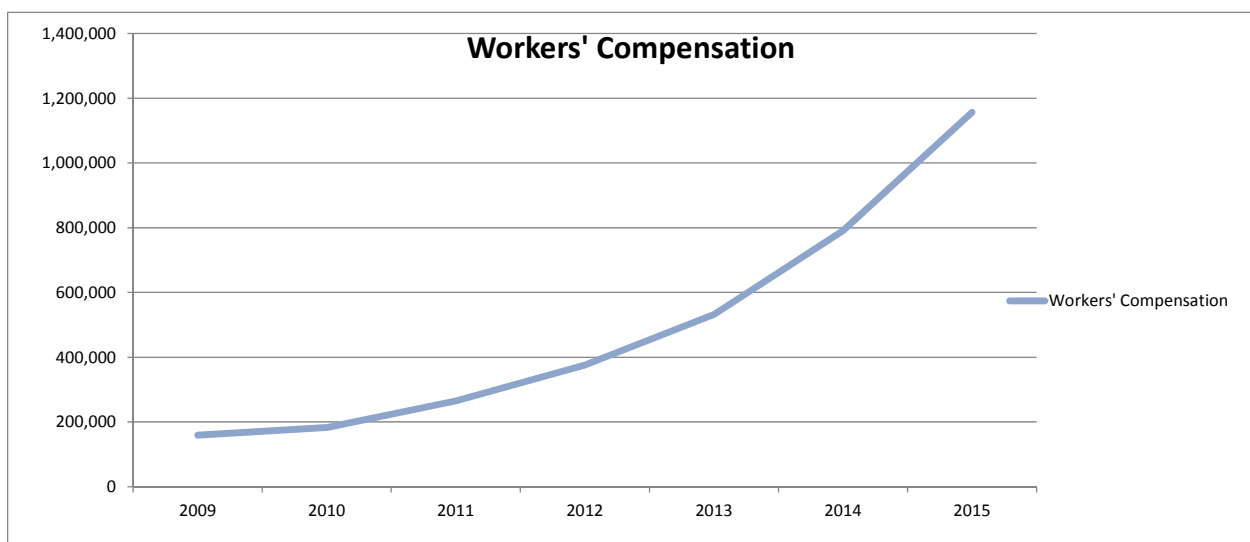
- We discussed current processes with employees involved in managing workers' compensation insurance claims. This included employees from Risk Services, Human Resources, and Environmental Health and Safety.
- We reviewed documentation for open and closed claims related to injuries and illnesses reported during Fiscal Year 2014 – 2015.
- We discussed the overall management of claims during recent years and potential improvements with employees at the TPA who help manage claims for UC Merced.
- We reviewed UC Merced's current procedures for promoting safe work practices and getting injured employees back to work.

Background

The UC system is self-insured for workers' compensation insurance. The system has contracted with a TPA to work with UC employees to manage workers' compensation claims. Workers' compensation insurance rates are based upon historical losses from claims, the surplus or deficit from losses versus amounts collected, and the annual campus payroll. The rates are applied to wages and salaries and charged to all campus departments.

Per an actuarial report received from the UC Office of the President, for Fiscal Year 2015 – 2016, UC Merced experienced the largest percentage increase in workers' compensation insurance rates in the UC system. During Fiscal Year 2015 – 2016, the rate per \$100 of payroll charged to most departments increased from the prior year rate of \$.97 to \$1.18; departments with a historically high injury rate paid a higher premium. Based upon the Fiscal Year 2014 – 2015 salaries and wages, this rate increase will result in more than \$200,000 worth of additional workers' insurance costs during the current fiscal year.

The following information provided to Internal Audit during the audit shows the trend of workers' compensation insurance costs for UC Merced:



The increasing costs are caused by the overall increase in payroll at the growing campus during the period and the cost of claims.

Until August 2015, workers' compensation insurance claims at UC Merced had been managed by an employee in Human Resources. When an employee experienced a work-related injury or illness, it was the responsibility of the employee and the employee's supervisor to report the incident to Human Resources. The Human Resources employee in charge of these claims would then work closely with the employee, the supervisor, the TPA, and other campus employees, such as the Accommodations Consultant and the Campus Safety Specialist, to evaluate the claim and help the employee recover and get back to work.

During July 2015, the Human Resources employee who had managed workers' compensation insurance claims during many years left the university. After her departure, management of workers' compensation insurance claims was transferred to Risk Services. In August 2015, Risk Services began reporting to the new Assistant Vice Chancellor of Campus Safety.

There are various services UC Merced and other organizations utilize to promote safe work practices. The Campus Safety Specialist in Environmental Health and Safety evaluates and trains employees to work in ways that promote safe practices. To promote safe practices and to avoid overuse injuries, ErgoCat is a system which helps employees evaluate their work practices. UC Merced contracts with an ergonomist to evaluate ErgoCat results to recommend improvements for employees.

Conclusion

From testing and discussions, we concluded that the past management of workers' compensation insurance claims was ineffective. Campus Safety has now been assigned responsibility for the workers' compensation insurance program. To keep these insurance costs from continuing to increase, the new management over the program should allocate sufficient resources and formalize procedures and expectations related to claims.

We noted potential improvements needed for the following areas:

- Poor control over the amount of time required before employees return to work
- Ineffective review and monitoring of claims
- Untimely follow up for employee ergonomics-related issues

Observations and Management Corrective Actions

1. Poor control over the amount of time required before employees return to work

Issue

Compared with workers' compensation insurance programs at other UC campuses, UC Merced requires more days (on average) for an employee to return to work. Other campuses manage many more workers' compensation insurance claims but are able to get employees back to work more quickly (on average). Overall, this has shown poor management of workers' compensation insurance claims.

Causes of issue

We identified various causes for UC Merced's poor management of return to work days.

- Only one Human Resources employee was involved with managing workers' compensation insurance claims. Overall, from discussions with employees who have filed workers' compensation insurance claims and from discussions with employees at the TPA, we noted issues with the work performance of the former employee who managed claims. There were often lapses in the management of the claims as the former employee did not maintain good communication with employees and the TPA throughout the claim process. Often employees and supervisors could not contact this unresponsive employee.
- There was insufficient supervision over the management of the workers' compensation insurance program. As there have never been written procedures related to the management of claims, there were not written expectations regarding steps taken to get employees back to work. During prior years, the former employee relied up the TPA to manage all aspects of the claims and allowed workers' compensation insurance claims to eventually just run their course. Steps were seldom taken to negotiate claims to get them closed in order to limit overall costs.
- Concerns were mentioned that the performance of the local medical provider utilized by the campus should have been evaluated. There were concerns that the provider favored claimants to the detriment of the University.
- Other UC campuses have put cost incentives in place to motivate supervisors and departments to accommodate employees and get them back to work. At UC Merced, departments pay their workers compensation insurance premiums and are not charged for particular claim costs. As a result, there is little motivation to speed up the return to work process.
- Compared with other UC campuses, UC Merced has not put programs in place to improve the health of employees with work-related injuries and illnesses. Per the TPA, UC Merced is the only campus that does not have a "Work Strong" program designed to

help strengthen employees so they do not have additional claims. UC Merced has had employees with multiple claims.

Impact of issue

Based upon the large number of days required to return to work, UC Merced workers' compensation insurance rates and costs have rapidly increased. As a result of poor communication between the employee who used to manage the claims and the TPA, sometimes employees continued to be paid by the TPA after the employee had returned to work. Adjustments to the employees' pay were required to correct the overpayments.

Recommendation

During August 2015, the management of workers' compensation insurance claims was transferred from Human Resources to Risk Services. We recommend that sufficient resources and training be provided to improve the management of the workers' compensation insurance program.

Written procedures and expectations for managing the different processes of a claim should be established. The management of claims should be closely monitored against the expectations.

The details of UC Merced's program should be compared with other campus programs to identify areas for improvement. Based upon our review, cost incentives should be established to motivate departments to work closely with the Accommodations Consultant to get employees back to work. Also, a program for improving the strength of employees who have filed workers' compensation insurance claims should be considered.

Management Corrective Action

Risk Services concurs with the recommendations. Both Risk Services employees involved with managing workers' compensation insurance claims have begun to receive formal training in this area and will continue to complete the remaining courses of the Workers Compensation Claims series.

The Workers' Compensation claims workload is .5 FTE; this workload was absorbed by one existing Risk Services staff. To meet the demands of a growing campus and implement the needed improvements in claims handling, Risk Services staff must increase accordingly. As the workload continues to increase, Risk Services will periodically evaluate the level of necessary resources.

Risk Services has begun putting together written processes and procedures for handling workers' compensation insurance claims. The remaining written procedures will be completed by July 31, 2016.

To monitor the claims, a quarterly claims review meeting has been established that includes the Third Party Administrator, Risk Services, and the Disability Manager to discuss litigated, lost

time, and languishing claims. In addition, the Risk Services Manager now reviews all open claims monthly with the Claims Coordinator.

To improve processes related to UC Merced workers' compensation insurance claims, Risk Services has begun discussing best practices with other UC locations recommended by the Third Party Administrator and UCOP Risk Services. UC Merced will consider cost incentives for motivating departments to get employees back to work. Risk Services will review the cost incentive programs set up at other UC locations and will evaluate the costs and benefits of setting up a similar program at UC Merced. Potential actions will be considered by June 30, 2016.

Risk Services has contacted the UCOP Workers' Compensation Manager to get more information about the "Work Strong" program, an occupational wellness initiative to promote recovery and prevent future workplace injuries. Because UC Merced is thinly staffed in occupational health, wellness, recreational sports and risk services, the campus may not have the resources at this time to implement this program. Risk Services will review the requirements and advise on feasibility or explore possible adaptations to suit our campus size and culture by June 30, 2016.

2. Ineffective review and monitoring of claims

Issue

We noted that only one UC Merced employee was involved with managing workers' compensation claims in the past. It does not appear that there was adequate monitoring of the former employee's work. As a result, there were risks from errors and potential fraud.

During the audit, we noted inaccurate and incomplete information in the system used to manage claims. As there was no review of the former employee's work, inaccurate information was not identified and corrected.

A risk with all types of insurance claims is phony claims. As no other UC Merced employee was involved with reviewing claims, the former employee could have submitted phony claims without anyone identifying that the claims were fraudulent.

Cause of issue

UC Merced Human Resources has been inadequately staffed. Only one employee was staffed for managing the workers' compensation insurance program. Appropriate oversight was never set up and another knowledgeable employee did not review the claims set up in the system.

Impact from issue

The claims system is used for completing the required reporting claims information to the Occupational Health and Safety Administration (Cal/OHSA). Inaccurate reported information could result in fines.

The poor monitoring of claims allowed claims to linger without being timely settled. Ultimately, this resulted in the significant increase in workers' compensation insurance rates and costs. While poor controls did not prevent phony claims, we did not identify fraudulent behavior.

Recommendation

We recommend that workers' compensation insurance claims be reviewed by an employee who is not responsible for managing the claims. Having another employee involved in the process would reduce the risk of fraudulent claims.

Management should review key cost factors, such as days to return to work, and establish expectations. Management should be involved when claims appear to be out of line with the established expectations. This monitoring will identify when more resources are needed to effectively manage workers' compensation insurance claims.

Management Corrective Action

Risk Services agrees with the recommendation. The Risk Manager now reviews all claims on a monthly basis with the Claims Coordinator, reviews all claims with TD and lost days, examines monthly claim reports and certifies their accuracy, and participates in the quarterly claims review with the Third Party Administrator.

This corrective action was completed before the report was issued.

3. Untimely follow up for employee ergonomic-related issues

Issue

Per the Environmental Health and Safety (EH&S) website: "Ergonomics is the science of adapting the work environment to fit the employee. It focuses on designing workstations, tools and tasks for safety, efficiency, and comfort. Efficient ergonomic designs and work practices reduce occupational injuries, discomfort and fatigue, and improve productivity and employee job satisfaction."

EH&S has implemented a system called "ErgoCat" so employees can work to evaluate their posture and work practices. After an employee completes the online evaluation, EH&S evaluates the results. If issues are identified with the employee's evaluation, a contracted Ergonomist is scheduled to work with UC Merced employees to recommend changes for improving the ergonomic design and work practices.

During the audit, an employee in Internal Audit completed an evaluation in ErgoCat and intentionally identified issues with posture and work practices for which an employee would be contacted. We submitted this evaluation to review the timeliness and effectiveness of the current processes. The online evaluation was completed during early August 2015. The immediate email

response received from the ErgoCat system was from the former EH&S administrative employee who left the University during December 2014. The email had not been updated since she left. It required almost three months for EH&S to contact the employee to schedule a meeting with the Ergonomist.

Cause of issue

EH&S contracts with an Ergonomist who evaluates UC Merced employees' work locations two days per month. With the number of employees submitting ErgoCat reports that require corrective actions, there are lapses in scheduling the ergonomic evaluations.

Impact of issue

With the lapses, proactive steps to reduce workers' compensation claims from poor posture and work practices are not being completed timely. This can result in increased losses from claims. Also, with the lapse after submitting results in ErgoCat (and as the email notification came from an employee who hasn't been UC Merced for many months), it makes employees wonder whether they will be contacted.

Recommendation

We recommend that EH&S management periodically review that ErgoCat evaluations are followed up on in a timely manner. A report for tracking the responses to these evaluations should be reviewed by management and expectations for response time should be established.

Management Corrective Action

EH&S has always made an effort to follow-up on the reports sent from the Ergo-Cat online evaluation system within two days, depending on availability of staff and student help. Once a notice is received, the EH&S student or the EH&S temporary part-time administrative staff person attempts to contact the client to schedule an in-person evaluation for a time period when the contract Ergonomist is on campus (presently two days a month).

Since the turnover of student help for this function is high, EH&S is developing a Standard Operating Procedure of the administrative functions of the Ergo program to avoid problems as described above. This Standard Operating Procedure will help student assistants and part time staff to better carry out the process with fewer errors.

The management corrective action will be completed by July 1, 2016.