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Risk Management Claims Administration and Workers' Compensation

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Risk Management Claims Administration and Workers' Compensation



Highlights

Workers' Compensation Payments

Risk Management requests payroll information for the injured workers wages from County and CCPS payroll to calculate lost time supplements. For CCPS payroll, this is the first notification of the claim, whereas the County uses a WC tracking code and a SharePoint site to track and share workers compensation information with Risk Management. The shared space with County payroll allows for consistent sharing of workers compensation information from the onset of the claim. CCPS does not have a shared space or a workers compensation tracking code in OneSolution, which can create delays in notification and processing of the payments. CCPS has varying pay cycles and employee types which may further delay processing. In some CCPS cases, the workers compensation supplement creates carryovers which are tracked manually and applied to subsequent pay periods.

In some cases, as a part of the lost time process, a no-hire agreement is completed for settled claims. We determined three of four RM notifications to HR were greater than 160 days after the no-hire agreement was signed.

Recommendation(s): We recommend Risk Management work with CCPS payroll to develop a shared space and improved tracking process for WC payments and develop a process to timely notify County and CCPS HR when no-hire agreements are signed and confirm receipt.

Workers' Compensation Claims Budgeting

The County centrally budgets for worker's compensation charges to ensure that excess costs in departments are sufficiently covered at year end. If WC actual expenditures exceed budgeted amounts, funds are reallocated from the general fund. Departments with enterprise funds have separate WC budgets. Similarly, CCPS' centrally budgets for WC expenditures using an estimate based on the past 10 years' expenditures. When WC actual expenditures exceed budgeted amounts, funds are reallocated from contingency funds. WC budgeting is efficient and keeps the allocation from being used for non-WC expenditures.

An actuarial study is regularly completed to project the long-term liability and worker's compensation claims for County and CCPS. The study results are utilized in managing the self-insurance fund to ensure money is available to pay for future loses. WC recorded liability is based on third-party experts and accurately reported.

Workers' Compensation Claim Reporting Timeliness

To determine if claims were filed in compliance with County policy, CCPS policy and Code of Virginia requirements, we calculated the number of days between injury and report to RM for all claims from FY21 through our testing date. We noted 64% of claims were filed outside policy required timeframes but only 1% of claims were filed outside Code of Virginia required timeframes.

Recommendation(s): Evaluate reporting processes to identify areas that could be revised to assist departments with timely WC reporting.

Management concurred with 2 of 3 recommendations detailed in the report to be implemented from 7/1/2022 to 11/1/2025. Internal Audit performs annual follow-up with management to confirm implementation status.

INTRODUCTION

BACKGROUND

The Risk Management Claims Administration and Workers' Compensation audit is a regularly scheduled audit on the FY22 audit plan approved by County and Schools Audit and Finance Committees.

Virginia Workers' Compensation (WC) law requires employers to pay all necessary medical costs arising from a job-related accident or illness as well as payment for lost time wages due to the accident or illness.

The FY21 Annual Comprehensive Financial Report (ACFR) states the Risk Management Fund (Fund), an internal service fund, accounts for property, casualty, and liability claims for both County and Chesterfield County Public Schools (CCPS). Internal service funds are used to account for the costs of operations for services provided to other departments. Significant claims which exceed premiums charged will be covered by increasing future County and CCPS premiums. Revenue is derived from charges on a cost-reimbursement basis for:

- Costs for loss administration
- A pro rata share of insurance premiums
- Incurred but not reported claims' actuarial estimates
- Operational costs

The FY22 budget for RM is shown in the following table:

	Revenue	Expenditures
Administration	\$ 417,500	\$ 3,426,400
Claim payments and insurance premiums	9,935,600	4,728,600
Claims services	-	1,235,200
Environmental health and safety	-	962,900
Total	\$10,353,100	\$10,353,100

Table 1: RM's FY22 Budget

The Risk Management (RM) department supports County and CCPS by working to manage operational risks to reduce accidental losses and provide protection for unplanned losses. RM has 19 employees of which seven full-time and two part-time work in the Finance and Claims Management Services Division. Claims are administered by RM staff with an independent claims audit conducted periodically. RM's website describes five department services:

- Management of County and CCPS’ comprehensive risk management plan and programs including self-insurance internal service fund administration, brokering excess insurance coverages, negotiating insurance policies, and environmental, health and safety (EHS) management system leadership.
- EHS professional consultation includes providing guidance to help manage operational risks, prevent and minimize loss, and assure regulatory compliance.
- Assessment of risk and recommendations for targeted improvement activities and operational controls implementation.
- Training in risk management principles and EHS requirements.
- Workers’ compensation, automobile, general, property, and professional liability claims administration.

RM has developed an intranet site that provides department guidance on claims reporting, necessary workers’ compensation forms, and Virginia Workers’ Compensation Commission (VWCC) information. RM uses RISKMASTER, a web-based claims administration system, for managing all risk and claims processes, from first notice of loss to payout. RISKMASTER can be customized, and modules added to meet specific requirements. VWCC also requires RM to report events through the Electronic Data Interchange (EDI). RM uses a vendor for EDI reporting since RISKMASTER does not integrate with EDI. The following chart depicts the claims reporting process:

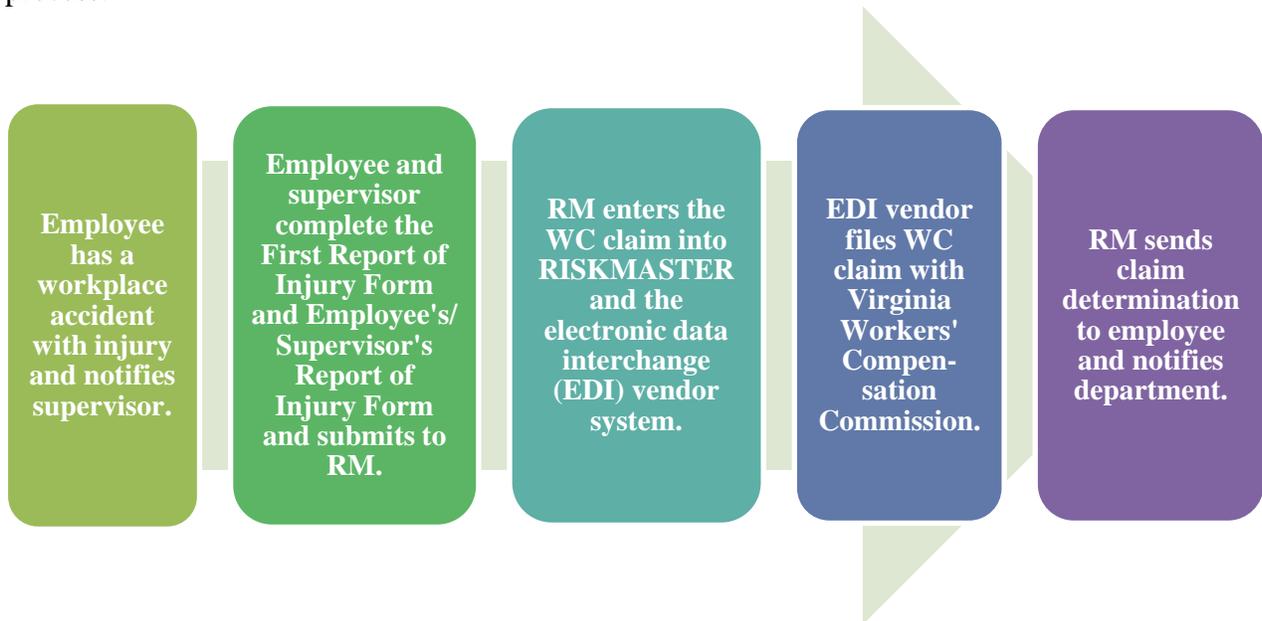


Chart 1: WC Claims Reporting Process Flowchart

RM classifies WC claims in three categories:

- Lost time: employee is injured at work and misses work due to inability to perform job duties, medical treatment, and/or rehabilitation.
- Medical: employee’s injury does not cause the employee to miss work.
- Notification: employee was mildly injured but did not require medical care and did not miss any work time.

The following table shows the number of WC claims by type for the previous four fiscal years:

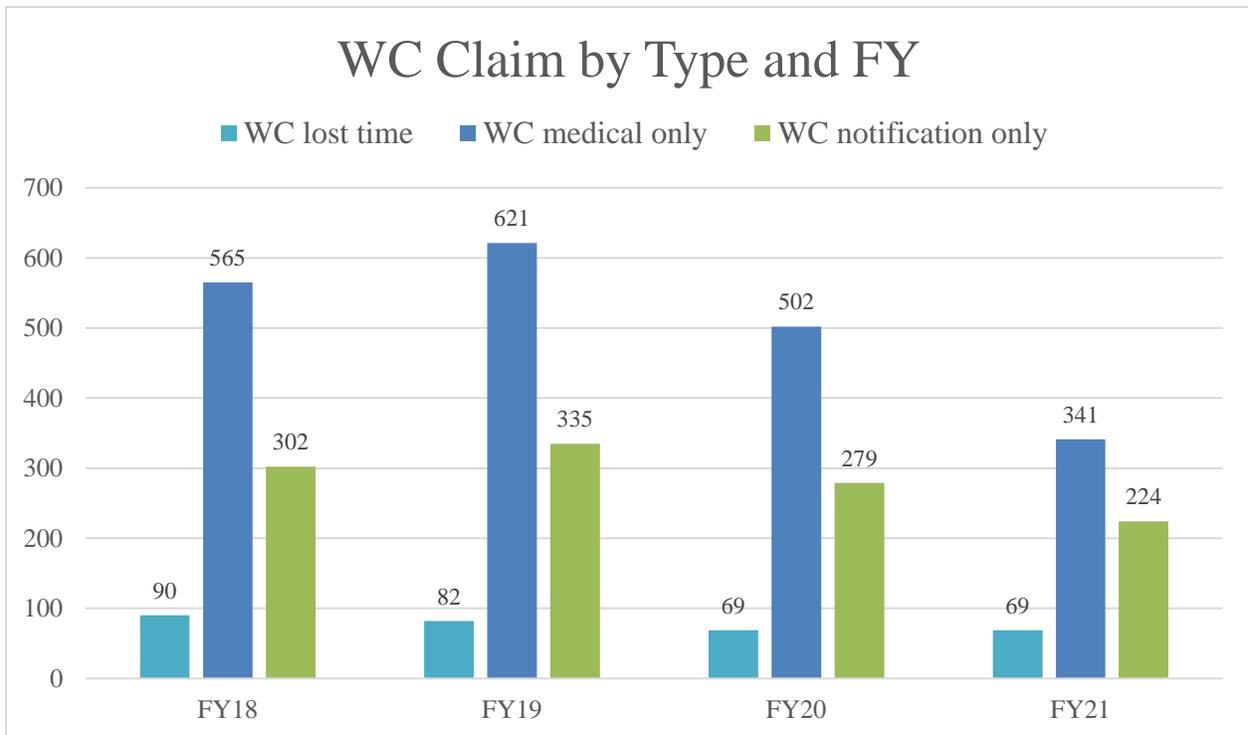


Table 2: WC Claims by Type and Fiscal Year

OBJECTIVES

Objectives of the audit were to:

- Evaluate workers’ compensation lost-time payment process
- Evaluate the adequacy of budgeting for workers’ compensation claims
- Evaluate workers’ compensation claim reporting timeliness

SCOPE

Our audit work covered FY21 and the current operating environment. We considered the following code, policies, and procedures during our audit:

<i>County Human Resources Policy 6-3: Workers' Compensation</i>	<i>School Board Policy 5462: Workers' Compensation</i>
<i>Code of Virginia § 65.2-Workers Compensation</i>	<i>Chesterfield County FY21 Budget</i>
<i>Schools FY21 Budget</i>	<i>Annual Comprehensive Financial Report</i>

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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. Audrey Weatherholtz, Staff Auditor, performed the audit work. The Office of Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY

Detailed information regarding the methodology can be found in the individual point sheets listed in the report. Our methodology included interviews, observations, data analysis, detail testing, and documentation review.

INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- efficiency and effectiveness of operations;
- accurate financial reporting; and
- compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place and there were minimal findings to question their ability to assist management in meeting its mission, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING

We would like to thank Risk Management staff and County and CCPS Human Resources (HR) and Payroll personnel for their cooperation and assistance during the audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Workers' Compensation Payments

(Point Sheet 1)

CRITERIA:

Code of Virginia §65.2 Workers Compensation Act outlines requirements related to compensation and payment resulting from a workplace injury as follows:

- Compensation is not allowed for seven calendar days following injury.
- Compensation for incapacity will begin on the eighth day of incapacity for 66 2/3 percent of employee average wages prior to injury.
- If injury extends beyond 21 days, workers compensation wages for the first seven days are paid to the employee.

County Human Resources Policy 6-3: Workers' Compensation outlines the following County specific compensation requirements related to workplace injuries:

- For the first 42 days of a workplace injury, an additional 1/3 supplement is paid to the employee for gross weekly wages based on their current hourly rate.
- For incapacity beyond 42 days, employee can use available leave to supplement for the 1/3 wages not covered by workers compensation.
- For incapacity beyond 84 days, only workers compensation benefits are received by the employee.

School Board Policy 5462: Workers Compensation aligns with the Code pertaining to the compensation related to workplace injuries. It indicates that any leave taken by an injured worker for the first seven days for incapacity extending beyond 21 days will be reimbursed at 2/3 of leave taken during this period.

CONDITION(S):

We selected a sample of nine (7 County and 2 CCPS) out of 87 workers compensation claims identified as lost time during FY21 through our date of testing, September 29, 2021, and evaluated for compliance with State, County, and CCPS requirements. For the selected sample, we reviewed the following:

- Workers' compensation amounts were accurately calculated and paid,
- County workers' compensation wage supplement paid to eligible employees was comparable to average net wages prior to injury, and
- Employee leave taken was properly adjusted or recovered by the employee for lost time.

For the selected sample of employees with identified lost time claims, two did not have any workers compensation payments processed through payroll. One was not a lost time claim and the other was settled through the VWCC. For the remaining seven employees we selected two pay periods with paid workers compensation and obtained the supporting documentation to demonstrate the 66 2/3 payments were properly calculated. Based on the testing the following was determined:

FINDINGS, RECOMMENDATIONS, RESPONSES

Workers' Compensation Payments

(Point Sheet 1)

- 6 of 7 employees had documentation to support average pre-injury wage.
- 14 of 14 pay periods had lost time documentation to support approval of payments by RM.
- 12 of 14 pay periods were recalculated by the auditors with only minor differences. Two could not be determined since documentation to support pre-injury wages was not available.
- 4 of 7 employees were properly paid County outlined WC supplements consistent with net wages prior to injury. The Accounting department processes payroll.
- 4 of 7 employees recovered leave time taken related to a WC injury. The Accounting department processes recovered leave time. We could not identify recoveries related to the remaining sampled employees.

Risk Management requests payroll information for the injured workers wages from County and CCPS payroll to calculate lost time supplements. For CCPS payroll, this is the first notification of the claim, whereas the County uses a WC tracking code and a SharePoint site to track and share workers compensation information with Risk Management. The shared space with County payroll allows for consistent sharing of workers compensation information from the onset of the claim. CCPS does not have a shared space or a workers compensation tracking code in OneSolution, which can create delays in notification and processing of the payments. CCPS has varying pay cycles and employee types which may further delay processing. In some CCPS cases, the workers compensation supplement creates carryovers which are tracked manually and applied to subsequent pay periods.

ONESolution has the ability to track hours used for workers compensation, as well as use a workers compensation pay code when employees get paid for that time. To determine how WC claims payroll details are tracked in ONESolution, we extracted payroll details from July 1, 2020, through January 15, 2022, for all employees RM provided as those who had WC claims during the period. We analyzed payroll details for each employee by pay code and summarized WC claims by tracking and pay codes identified. Based on our review of 87 WC Lost Time claims identified for 84 individuals (26 CCPS and 58 County), the following was determined:

- County utilizes a WC hour tracking code for employees once an injury has been reported. County payroll and RM can use this system information to ensure the employee is being paid the correct WC amount.
- CCPS does not use a WC tracking code for employees once an injury has been reported. CCPS tracks WC hours worked on paper rather than using ONESolution.

In some cases, as a part of the lost time process, a no-hire agreement is completed for settled claims. No-hire agreements are communicated to County and CCPS HR to ensure the employee is not hired/rehired. RM's listing of settled claims for FY21 included eight employees (5 County and 3 CCPS) with no-hire agreements. We inquired with County and CCPS HR to verify each employee's no-hire agreement was in their personnel file. CCPS HR had all no-hire agreements on file, whereas the County only had record of one of the five. Based on additional inquiry, we determined three of four were communicated to County HR more than 160 days after the no-hire agreement was signed.

FINDINGS, RECOMMENDATIONS, RESPONSES

Workers' Compensation Payments

(Point Sheet 1)

CAUSE(S):

- Policies and procedures are in place to properly approve, calculate, and track payments for workers compensation.
- CCPS employee documentation to support average pre-injury wages was not maintained to calculate workers compensation amounts.
- County 1/3 supplement is properly paid to eligible employees.
- County and CCPS system payroll codes are not the same.
- Low number of no-hire agreements therefore there is no formalized RM process for timely no-hire notifications to County and CCPS HR.

EFFECT(S):

- Workers' compensation payments are properly tracked, approved, and paid to employees for claims.
- Employees with workers compensation claims are correctly paid for lost wages related to workplace injuries.
- Difficult to determine if CCPS employee are getting paid accurately for WC hours worked since hours are tracked on paper.
- County and CCPS may hire ineligible employees.

ACTIONS TAKEN:

County HR has updated their procedures requiring all no-hire agreements to be saved in former County employees' personnel files.

COMMENDATION(S):

Risk Management policies and procedures are in place to properly approve, calculate, and track payments for workers compensation.

FINDINGS, RECOMMENDATIONS, RESPONSES

Workers' Compensation Payments

(Point Sheet 1)

RECOMMENDATION(S):

We recommend Risk Management:

1. Work with CCPS payroll to develop a shared space and improved tracking process for WC payments.
2. Develop a process to timely notify County and CCPS HR when no-hire agreements are signed and confirm receipt.

MANAGEMENT RESPONSE:

1. *Do not concur. Risk Management welcomes the opportunity to work with CCPS on establishing a more efficient process to track employees experiencing lost time due to workers compensation injuries. Success will be dependent on CCPS establishing a procedure to track employees experiencing lost time due to a work-place injury through its online timecard like the County currently utilizes. It will require CCPS to establish a reporting code for workers compensation through its online timecard and for CCPS to provide training throughout the organization. Since Risk Management is dependent on CCPS to provide lost time information in order to process lost time payments for CCPS employees, Risk Management is willing to collaborate with CCPS in establishing a reporting process similar to the one in the County.*
2. *Concur. Trent Jones, Assistant Director is responsible for implementation by 7/1/2022. Risk Management agrees to establish a procedure to address that Risk Management will notify County and CCPS HR within 30 days of receiving all no-hire agreements and confirm receipt.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Workers' Compensation Claims Budgeting

(Point Sheet 2)

CRITERIA:

The FY21 Budget document describes the annual budget process. Development of the County's annual budget includes a review of each department's budget. Each funded activity is reviewed by the County's Budget and Management (Budget) staff, executive leadership, the County Administrator, and approved by the Board of Supervisors. Amendments that alter the total appropriation of any fund must be approved by the Board of Supervisors, with some exceptions where approval may be made by the County Administrator. The County Administrator is authorized to transfer among appropriation categories and/or appropriate funds in any amount for compensation-related costs like workers compensation expenses.

The FY21 CCPS Budget document describes that the Superintendent prepares an estimate of money needed for the next fiscal year. Once approved by the School Board, the budget is submitted to the County Board of Supervisors for approval. Transfers between major object groups within a department/school or from one department/school to another in the same major classification shall require the approval of the Superintendent. In the event that the Board of Supervisors appropriates by major classifications and grants authority to the Superintendent and/or the School Board to transfer a portion of the funds from one major classification to another without the further approval of the Board of Supervisors, such transfer, or successive transfers, may be accomplished as authorized and limited by the Appropriation Resolution.

The ACFR notes to the financial statements explain that the County records a liability for WC claims in the government-wide financial statements for the primary government and the School Board component unit, and in the fund financial statements of the proprietary funds. These liabilities consist of those claims reported, reported and outstanding, and incurred but not reported at fiscal year-end. Liabilities are estimated based on a case-by-case review, investigation, and historical experience. Payments for liabilities are recorded as a charge to the fund that incurred the liability.

CONDITION(S):

The County centrally budgets for worker's compensation charges to ensure that excess costs in departments are sufficiently covered at year end. The FY21 County general fund budget includes \$3.1 million for workers compensation. In April/May of the budget year, Budget prepares a point in time projection based on actual expenditures and then after County Administrator approval, reallocates the WC budget to departments to cover WC expenditures. If WC actual expenditures exceed budgeted amounts, funds are reallocated from the general fund. Departments with enterprise funds have separate WC budgets. Similarly, CCPS' centrally budgets for WC expenditures using an estimate based on the past 10 years' expenditures. The FY21 CCPS budget includes \$3.1 million for workers compensation. When WC actual expenditures exceed budgeted amounts, funds are reallocated from contingency funds. The following chart shows WC budget and actual expenditures for the last five fiscal years:

FINDINGS, RECOMMENDATIONS, RESPONSES

Workers' Compensation Claims Budgeting

(Point Sheet 2)

Funds	FY19 Budget	FY19 Actual	FY20 Budget	FY20 Actual	FY21 Budget	FY21 Actual
County General Fund	\$2,538,300	\$2,742,385	\$3,081,900	\$2,274,158	\$3,125,000	\$2,217,733
County Enterprise Fund	492,300	48,087	492,300	(89,050)	492,300	365,944
CCPS	3,312,400	2,693,521	3,327,400	2,587,004	3,095,005	1,670,481

Table 3: Workers' Compensation Budget and Actual Expenditures

WC claims are funded annually by appropriations in the various funds. The County maintains an excess insurance policy to cover individual claim costs exceeding \$800,000 for non-public safety County and CCPS employees and \$1,250,000 for public safety personnel.

A regular recurring actuarial study is completed to project the long-term liability and worker's compensation claims for County and CCPS. The study results are utilized in managing the self-insurance fund to ensure money is available to pay for future loses. To determine if the recorded liability was reasonable, we compared it to the third-party actuarial study for FY20 and FY21 and noted the actuarially determined WC liability equaled the long-term liability in the ACFR as shown in the table below:

Fiscal Year	County ACFR Recorded WC Liability	County Actuarial Report	CCPS ACFR Recorded WC Liability	CCPS Actuarial Report
FY20	\$ 6,778,271	\$6,778,272	\$5,575,875	\$5,575,875
FY21	6,755,196	6,755,196	4,220,465	4,220,465

Table 4: Workers' Compensation Liability and Actuarial Report Amounts

CAUSE(S):

- Budgeting for WC is centralized.
- ACFR WC liability agrees with third party actuarially estimated liability.

EFFECT(S):

- WC budgeting is efficient and keeps the allocation from being used for non-WC expenditures.
- WC recorded liability is based on third-party experts and accurately reported.

FINDINGS, RECOMMENDATIONS, RESPONSES
Workers' Compensation Claim Reporting Timeliness
(Point Sheet 3)

CRITERIA:

County Human Resources Policy 6-3: Workers' Compensation requires the First Report of Injury form to be completed and signed by the designated department person. The form will state the employer's version of events and must be delivered to RM along with one copy of the Employee's/Supervisor's Report of Injury form within 24 hours of the injury.

School Board Policy 5462: Workers' Compensation notes an injured employee must notify a supervisor and complete the First Report of Injury form no later than 24 hours following the on-the-job injury or illness. As soon as possible, but no later than 24 hours following the on-the-job injury or illness, the employee must complete the employee's section on the Employee's/Supervisor's Report of Injury form and must send the completed form to the employee's immediate supervisor. As soon as possible, but not later than 48 hours following the on-the-job injury or illness, the employee's designated department member will complete the forms and send to RM.

Code of Virginia §65.2-600 Notice of Accident requires an injured employee to immediately notify in writing the employer after a workplace accident, or as soon as practicable thereafter. No compensation or medical benefit shall be payable to the employee, unless the written notice is given within thirty days after the employee's accident, unless a reasonable excuse is provided to the VWCC.

CONDITION(S):

RM provided a listing of all workers compensation claims for FY21 through the test date, September 29, 2021. To determine if claims were filed in compliance with County policy, CCPS policy and Code of Virginia requirements, we calculated the number of days between injury and report to RM. We noted 64% of claims were filed outside policy required timeframes but only 1% of claims were filed outside Code of Virginia required timeframes as outlined in the following table:

FINDINGS, RECOMMENDATIONS, RESPONSES
Workers' Compensation Claim Reporting Timeliness
(Point Sheet 3)

Department	County/CCPS Policy Compliance	Percent Compliance	VA Code Compliance	Percent Compliance
Administration	0/2	0%	1/2	50%
Building Inspection	1/5	20%	5/5	100%
CCPS	150/342	44%	333/342	97%
Commonwealth's Attorney	2/2	100%	2/2	100%
Employee Medical Center	0/1	0%	0/1	0%
Environment Engineering	2/6	33%	5/6	83%
Fire/Emergency Medical Services	23/113	20%	109/113	96%
General Services	6/12	50%	12/12	100%
Information Systems Technology	0/1	0%	0/1	0%
Juvenile Detention	1/7	14%	7/7	100%
Libraries	5/8	63%	8/8	100%
Mental Health Support Services	3/24	13%	21/24	88%
Parks	3/9	33%	8/9	89%
Police	48/163	29%	160/163	98%
Real Estate Assessor	1/1	100%	1/1	100%
Sheriff	26/43	60%	43/43	100%
Social Services	1/2	50%	2/2	100%
Utilities	12/38	32%	38/38	100%
Total	284/779	36%	755/779	99%

Table 5: Departments' Claims Filing Timeliness

CCPS, Police, Fire/Emergency Medical Services, and Mental Health Support Services filed more than 10% of workers compensation claims greater than seven days after the incident. We reviewed selected claims for each of these departments and inquired with department management about claim filing processes. Reasons for delayed filing included employees not reporting claims initially thinking they will get better, paperwork processing delays, staff turnover, quarantines, and contact tracing during the pandemic.

FINDINGS, RECOMMENDATIONS, RESPONSES
Workers' Compensation Claim Reporting Timeliness
(Point Sheet 3)

CAUSE(S):

- County and CCPS policy are more restrictive than State Code requirements.

EFFECT(S):

- Most departments are not in compliance with current County and School policy workers' compensation reporting timeframe requirements.

RECOMMENDATION(S):

We recommend Risk Management:

3. Evaluate reporting processes to identify areas that could be revised to assist departments with timely WC reporting.

MANAGEMENT RESPONSE:

3. *Concur. David Johnson, Director, will implement by 11/1/2025. Risk Management will work with County IST and Purchasing to develop an RFP for a Risk Management Information System that can provide online claims reporting to the end user. Online claims reporting will improve timely reporting of claims to Risk Management. IST and Purchasing may determine the timeline for implementation around the expiration of the existing RMIS contract. In the interim, Risk Management will develop and implement by 12/1/2022, a Ulearn training module for supervisors that will include accident investigation, root cause analysis and workers compensation education to include the importance of timely claims reporting.*