

# MUNICIPAL AUDITING REPORT CITY OF ROANOKE



## **RCPS Workers Compensation Follow-Up July 31, 2018**

Report Number: 18-013  
Audit Plan Number: 18-105

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## AUDIT OBJECTIVES & SCOPE

### Audit Objectives:

1. To determine if indemnity payments to claimants in 2017 and 2018 were correctly calculated in accordance with workers compensation regulations.

**Yes, with Qualifications** – Errors were noted in all five (5) indemnity claims we tested. Overall, these errors did not result in material financial impact to either the division or injured employees. During this follow up audit, extensive research and discussion on the proper basis for determining average weekly wages provided greater clarity and resulted in improved procedures. On this basis, we concluded that no further follow up on workers compensation will be required in the future.

### Audit Scope:

We selected a sample of 2017 and 2018 indemnity payments issued by the Division's third party claims administrator, PMA Management Corporation.

**End of Audit Objectives and Scope**

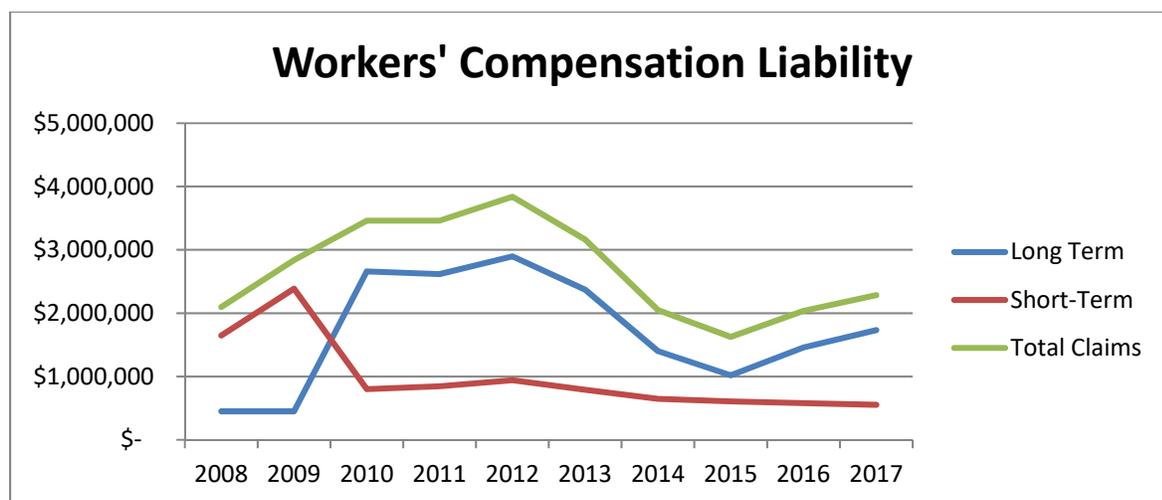
### BACKGROUND

The primary goal of the workers compensation program is to provide appropriate care and treatment for injured workers. The program seeks to provide professional and responsible management of employee injuries that enables employees to recover their health and return to work. The Coordinator of Occupational and Student Health is responsible for overseeing, planning, and coordinating health and wellbeing activities for employees of Roanoke City Public Schools. A significant part of this role involves managing the Division’s workers compensation program.

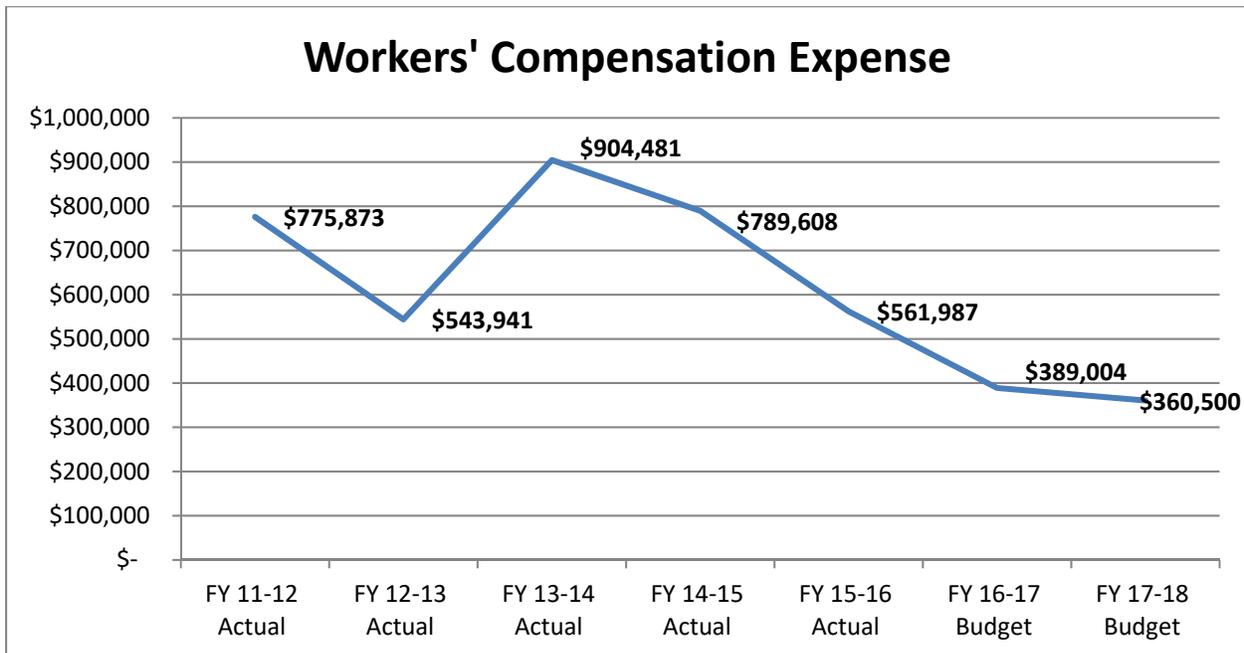
The current Coordinator of Occupational and Student Health, a board certified Registered Nurse, commenced employment on November 13, 2017. He holds a bachelor of science in nursing (BSN) degree, and is currently preparing to become a board certified Occupational Health Nurse. The Coordinator of Occupational and Student Health has career experience with workers compensation, as he was in charge of the entire program for his previous employer. While he has only been with RCPS for five (5) months, his background in nursing services and workers compensation is already proving to be valuable.

Roanoke City Public Schools contracts with PMA Management Corporation to provide workers compensation claims management services. The contract went into effect on July 1, 2016 and provides for workers’ compensation claims administration services, as well as excess reporting, managed care, risk control, and legal services. Prior to this arrangement, the Division contracted with Sedgwick Claims Management Services, Inc. [Sedgwick] for these services.

Based on data taken from the Division’s Comprehensive Annual Financial Reports for the years ending June 30, 2008 through 2017, overall liability for workers compensation peaked in 2012, steadily decreased through 2015, and appears to be on the rise in 2016 and 2017.



Workers' compensation expenses for RCPS have trended down, contrary to the increasing long term liability noted above, as can be seen in the following chart:



The Virginia Workers' Compensation Act [Title 65.2 of the Code of Virginia] governs workers' compensation. Additionally, the Occupational Safety and Health Act of 1970, as administered by the Occupational Safety and Health Administration [OSHA], regulates workplace safety, standards, and training requirements. The laws are complex and it is essential for the Coordinator of Occupational and Student Health to understand and appropriately apply the laws throughout the workers' compensation process.

On an annual basis, the Coordinator of Occupational and Student Health must report all OSHA Claims [lost time, modified duty, death, and other OSHA applicable claims] to the U.S. Department of Labor. All claims must also be reported to the Workers' Compensation Commission as they occur. The PMA Corporation prepares and submits this reporting on behalf of Roanoke City Public Schools. The school division receives a confirmation letter from the Commission for each claim submitted by PMA.

The previous follow-up audit of workers compensation was reported September 16, 2016, and found that 4 of 5 action plans had been effectively implemented. The remaining open action item related to indemnity payments and is the subject of this follow up audit.

**End of Background**

**Objective 1: Indemnity Payments**

**2016 Management Response / Action Plan:**

Occupational and Student Health documented a procedure specifying that the wage report for an injured employee would start with the pay period immediately prior to the date of lost time and include 52 weeks (24 pay periods / 12 months) of historical payroll information.

**2016 Audit Observation:**

Indemnity payments for two (2) Roanoke City Public School employees were incorrectly calculated and issued by the third party claims administrator during 2016. The errors, which were caused by incorrect wage reports provided to the third party administrator, resulted in overpayments to both claimants.

Resolved – **Yes, with Qualifications**

**Overview:**

We reviewed both discrepancies identified in the previous follow-up audit to determine if they were corrected. The payment amount for one claim was appropriately decreased as of March 16, 2017, based on a court order from the Virginia Workers Compensation Commission. Payments on the other claim have ceased, with the claimant receiving a total overpayment in the amount of \$26.66.

We reviewed five (5) new indemnity payments made during 2017 and 2018 to determine if payments were correctly calculated and paid in compliance with the Virginia Workers' Compensation Act. Based on a strict reading of the Virginia Code 65.2-101, and formal guidance received from regulators at the Workers Compensation Commission, we concluded all five (5) indemnity payments were incorrect, due to reasons noted on the chart below:

	Sample #1	Sample #2	Sample #3	Sample #4	Sample #5
<b>Incorrect Look Back Period: Wrong Starting Date</b>			X	X	X
<b>Incorrect Look Back Period: &gt; 52 Weeks</b>	X	X	X	X	X
<b>Breaks in Service Not Properly Accounted For</b>	X	X			
<b>Overtime Wages Excluded</b>			X		

These errors combined for a net weekly underpayment of \$103.48. As of February 27, 2018, the total net underpayment was \$7,384.39, as shown on the following chart:

Payments As of 2/27/18	Sample #1	Sample #2	Sample #3	Sample #4	Sample #5
<b>Net Over (Under)</b>	<b>\$(1,301.95)</b>	<b>\$(5,440.65)</b>	<b>\$ (862.29)</b>	<b>\$ 23.28</b>	<b>\$ 197.22</b>

The underpayments calculated by us for employees represented by samples #1 and #2 included an increase in the average weekly wage based on a break in service during the summer months. This adjustment was consistent with the law and regulatory guidance we received from the Workers Compensation Commission.

Outside counsel retained by the school division for advice on workers compensation issues has advised that summer months should not be treated as a break in service when calculating average weekly wage for teachers. The attorney's position is based on past decisions of the Commission's Judiciary, which he states supports using a 52 week wage period.

In checking with other Virginia school divisions, management found there were variations in how summer months were treated in computing average weekly wages. Management also analyzed the total pay differentials when using a 52 week period versus a 42 week period for historical indemnity claims that began and ended during the school year. Based on this data, the advice from the attorney, and a desire to be consistent, fair and equitable, management decided that summer months will not be treated as a break in service.

After adjusting our computations to reflect a 52 week period, the total underpayment of \$7,384 noted above was reduced to **\$1,399**.

Management has revised its procedures for managing indemnity claims to incorporate the advice provided by outside counsel. The additional detail in the new procedures should help ensure a 52 week wage report is consistently produced by the Division for its third party administrator to use as the basis for indemnity payments.

### **Conclusion:**

Based on the immaterial differences noted for indemnity payments and the clarity added to the Division's procedures for providing wage information, we conclude that management's actions have substantially resolved the issue. No further follow up work on this issue will be planned by our office.

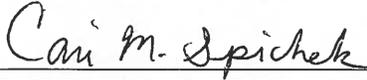
**End of Objective 1**

**MANAGEMENT COMMENTS**

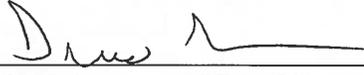
**None**

**ACKNOWLEDGEMENTS**

We would like to thank Jeremy Howard, Coordinator of Occupational and Student Health, for his cooperation and assistance. We would also like to thank Sandra Burks, Executive Director of Human Resources, Betty Massey, Payroll Coordinator, Christopher Kite Esq., RCPS legal representation for Workers Compensation Claims, Debbie Rhodes with the Virginia Workers Compensation Commission, and Sandy Close, PMA Regional Claims Supervisor for their time and assistance throughout the audit.



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