



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

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Project Number

1240031

This report can be made available in alternate format upon request.

**Human Resources Department
Contract Audit – Cannon Cochran Management Services, Inc.**

November 22, 2024

Report Highlights

Claims Processing

The Human Resources Department needs to improve its monitoring procedures to meet injury reporting and case decision deadlines.

Payments on Denied Claims

The Human Resources Department needs to develop a process that requires HR staff approval for payments on denied claims.

Adjuster Staffing

The Human Resources Department monitored assigned caseloads and worked with the contractor when adjusters had more cases than the limit established in the contract.

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Executive Summary

Purpose

Our purpose was to determine whether the Human Resources Department (HR) was adequately monitoring its contract with Cannon Cochran Management Services, Inc. (CCMSI), to manage claims and payments necessary to provide benefits under the City's Workers' Compensation Program.

Background

On July 1, 2023, HR entered contract #156105 with CCMSI, to be a third-party administrator and provide claim management and payment services for the City's Workers' Compensation Program. CCMSI reviews workers' compensation claims and recommends case approvals and denials, with HR being responsible for making the final decision. The contract term is five years, and the total aggregate amount is not to exceed \$15 million. CCMSI is paid a flat amount each year, with the fiscal year 2024 payment set at \$2.47 million. This contract follows the previous contract with CCMSI, which was established in 2017 for the same services.

Between March 1, 2023, and March 1, 2024, the City received 1,865 claims for work injuries, of which 197 were denied. The City paid \$13 million for claims in the period tested. These included indemnity payments, legal fees, medical services, and other administrative expenses.

The contract provides specific performance measures that CCMSI must meet while processing claims. In addition, there are State requirements for the timely processing of claims. We reviewed a sample of workers' compensation claims, payments, and adjuster caseloads and licenses to verify HR's monitoring procedures ensured CCMSI complied with contract requirements.

Results in Brief

HR needs to improve its monitoring procedures to meet injury reporting and case decision deadlines.

State statute sets specific timeframes around reporting and processing workers' compensation claims. The City must report claims to the Industrial Commission of Arizona (ICA) within ten days of the injury, and claims must be approved or denied within 21 days of receiving a Notice of Claim from the ICA.

Compliance with State Requirements

Processes with Deadlines	Compliance Rate
Reporting Injury to the State	61%
Approving or Denying Cases	97%
Denying Cases by the Deadline	88%

Improvements are needed to ensure compliance with the state statute.

HR needs to develop a process that requires HR staff approval for payments on denied claims.

The contract allows CCMSI to pay for the initial visit to a contracted medical center, independent medical evaluations, surveillance, and legal fees on denied claims. Other expenses may be paid, depending on the case. Additionally, claims denied after the State's 21-day requirement must be treated as if approved, making the City liable for medical expenses incurred. However, HR did not have procedures to monitor payments on denied claims or guidelines for CCMSI to determine allowable expenses. Due to the lack of guidelines or monitoring, the City paid approximately \$10,000 for medical bills in denied cases.

HR monitored adjuster caseloads and worked with CCMSI when adjusters had more cases than the limit established in the contract.

The contract stipulates that CCMSI must employ enough staff to assign no more than 150 claims per adjuster and no more than 300 claims to adjusters who work on supportive care claims. From March through September 2023, we found that between two to seven adjusters had caseloads that exceeded the contractual limits. In addition, the two adjusters working on supportive care claims exceeded 300 cases in every month reviewed. HR worked with CCMSI on a plan to hire more staff instead of assessing fees for exceeding the adjuster claim and caseload limits.

Department Responses to Recommendations

Rec. 1.1: Create procedures to monitor claims and ensure they are appropriately approved or denied within statutory requirements.	
Response: HR Workers Compensation will request that CCMSI create and provide a monthly report that tracks, at a minimum, employee name, date of CCMSI ICA notification, ICA listed due date, and date the actual notice was issued. HR will review the report and monitor claim statutory requirements.	<u>Target Date:</u> 2/17/2025
Rec. 1.2: Create guidelines for CCMSI to determine allowable payments on denied claims.	
Response: HR Workers Compensation will create a guideline document for CCMSI that outlines general allowable or prohibited payments on denied claims, as well as the process for payments on denied claims.	<u>Target Date:</u> 2/17/2025
Rec. 1.3: Create a process to monitor payments on denied claims and ensure they are allowable.	
Response: CCMSI currently has a system that provides error messages when payments are attempted to be made on denied claims and allows for manual override. CCMSI will provide refresher training to staff regarding appropriate situations to utilize the manual override. CCMSI will provide HR a monthly report that includes all payments made on denied claims that month. HR Workers Compensation will review report and monitor for payment accuracy.	<u>Target Date:</u> 2/17/2025
Rec. 1.4: Document the process for following up when HR does not receive the Form 101 from the injured employee's department.	
Response: HR Workers Compensation will create a written process for when 101 forms are not received from the department.	<u>Target Date:</u> 2/17/2025

1 – Contract Monitoring

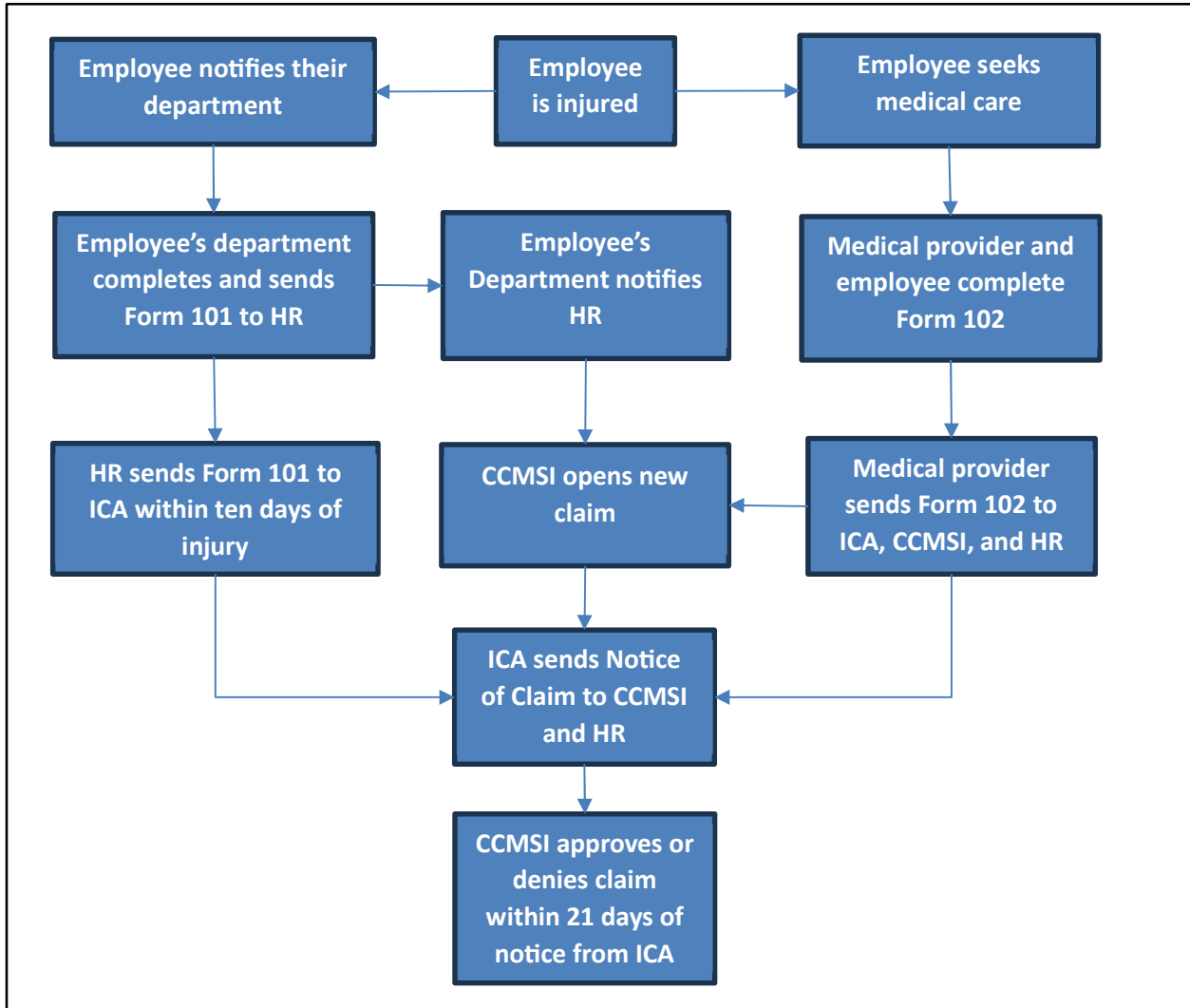
Background

The City's contract makes CCMSI responsible for a range of functions that include:

- Setting up new claims.
- Ensuring all forms are filed correctly with the ICA.
- Communicating with injured workers about their claim status.
- Approving or denying claims.
- Authorizing payments to medical providers.
- Communicating with City HR staff about the status of claims and obtaining authorization for denying claims.
- Referring claims to an Independent Medical Examiner for review.
- Conducting surveillance investigations.

Arizona Revised Statute (A.R.S.) §23-1061 outlines notification responsibilities and deadlines for reporting and processing employee injury claims. The contract and State statute have specific deadlines for reporting injuries and approving or denying new workers' compensation claims. City employees injured on the job may seek treatment at a City-contracted medical center. The employee, medical provider, and City have various reporting requirements when a worker is injured.

Figure 1: Industrial Injury Claims Process



Processing industrial injury claims requires coordination between several parties.

The City must report employee injuries to the ICA using the Employer’s Report of Injury Form (ICA Form 101) within ten days of receiving notice of the injury. The contract requires CCMSI to notify HR if they receive a Worker’s or Physician’s Report of Injury (ICA Form 102) and no corresponding ICA Form 101. In addition, CCMSI is to contact the City seven days before the 21-day denial deadline and work with City staff to collect information needed to determine whether to approve or deny claims. The City must pay all medical bills for employees whose claims are not denied by the deadline and who miss more than seven days of work.

We interviewed HR staff, reviewed contract monitoring procedures, and tested a sample of employee injury claims received to determine if controls ensured CCMSI reported and processed claims according to the contract and State requirements.

Results

While most claims were approved timely, HR must improve its monitoring procedures to ensure that injury reporting and case decision deadlines are met.

The CCMSI contract listed performance metrics for processing claims and reporting to HR. HR did not have monitoring procedures to ensure CCMSI met the metrics. We did not find evidence that HR monitored claims to ensure timely processing. For example, the contract required CCMSI to notify HR seven days before the 21-day denial deadline and notify the City when it received a Worker's and Physician's Report of Injury without a corresponding Employer's First Report of Injury. HR did not monitor claims approaching the 21-day deadline; instead, it relied on CCMSI adjusters to notify them of claims approaching the deadline. HR did not monitor to ensure that claims were denied within the 21-day deadline.

We sampled 90 claims for injuries reported between March 1, 2023, and March 1, 2024. The sample included 80 approved claims and ten that were initially denied. We reviewed when the notice of claim status was sent to the ICA accepting or denying the claim and compared that to the date of the original notice of claim received from the ICA. Of the 90 claims we reviewed, 87 were approved or denied within the 21-day requirement. However, two claims were approved one and four days late, and one was denied 32 days after the 21-day deadline.

CCMSI reviews workers' compensation claims and recommends approval or denial to the City. The contract requires CCMSI to notify HR seven days before the denial deadline imposed by statute. However, HR did not enforce the reporting requirement and was unaware of claims approaching or decided on past the deadline. The City was liable for medical services and other fees associated with the injury when claims were denied after the 21-day requirement. Given the risk associated with denying claims late, we sampled 25 denied claims. Three claims were denied 4, 13, and 33 days after the 21-day statutory deadline.

HR did not monitor payments on expenses of denied claims resulting in some unallowable expenditures.

HR did not have procedures to monitor payments on denied claims or guidelines for CCMSI to determine allowable expenses. Permissible payments include fees for the initial visit to a contracted medical center, surveillance, independent medical evaluations, and legal. According to HR, the CCMSI adjusters are responsible for

approving or denying payment for medical services. We reviewed payments on a sample of 25 of the 197 denied claims. Of the 25 denied claims, CCMSI made payments on 11 (44%) for unallowable medical services. These included payments for emergency room visits and physical therapy. Seven of the denied claims included payments to the Phoenix Fire Health Center. CCMSI and HR determined that the injuries or illnesses were not work-related in these cases and denied the claims. In total, we found \$9,963.25 in unallowable payments for medical bills on denied claims.

HR monitored industrial injury packet submissions, but there were delays from employee's departments in reporting the injury.

A.R.S. §23-1061 requires that Workers' compensation insurers report an injury to the ICA within ten days of the employee notifying the employer of an injury. When a City employee is injured, the employee's department needs to complete the ICA's Employer's Report of Industrial Injury (Form 101) and submit it to HR. HR will review the report and submit it to the ICA. The contract requires CCMSI to notify HR when it receives notice of an injury but does not get a completed Form 101 from the employee's department.

We compared employee injury dates to dates that HR submitted Form 101 to the ICA to verify they met the ten-day deadline. HR submitted Form 101 late in 35 of 90 (39%) claims reviewed. In one case, it took HR 139 days to get the packet from the employee's department sent to the ICA. While HR and CCMSI can process claims without Form 101, not submitting the form to the State within ten days does not meet statutory requirements.

HR relies on the employee's department to send them information about the injury so they can complete and submit the forms to the ICA. HR implemented some processes to speed up this process, including making the forms available online. Additionally, they followed up with Incident Managers assigned to each department if Form 101 was not submitted, although this process is not documented. Ultimately, HR is reliant on the employees' departments to provide Form 101 in a timely manner. HR should take steps to minimize potential delays, such as creating a documented follow-up process.

Recommendations

- 1.1 Create procedures to monitor claims and ensure they are appropriately approved or denied within statutory requirements.
- 1.2 Create guidelines for CCMSI to determine allowable payments on denied claims.

- 1.3 Create a process to monitor payments on denied claims and ensure they are allowable.
- 1.4 Document the process for following up when HR does not receive the Form 101 from the injured employee's department.

2 – Adjuster Caseloads

Background

The contract with CCMSI does not specify the number of adjusters CCMSI must employ but does state that the adjusters are to maintain a caseload of no more than 150 claims. Adjusters who work on supportive care claims can maintain a caseload of 300 claims. The contract allows HR to assess fees of \$500 for each file assigned above caseload limits. In addition, the contract requires all adjusters to have an adjuster's license.

We reviewed adjuster caseload reports between March 2023 and March 2024 to calculate monthly caseload assignments and verified the adjusters' licensing status.

Results

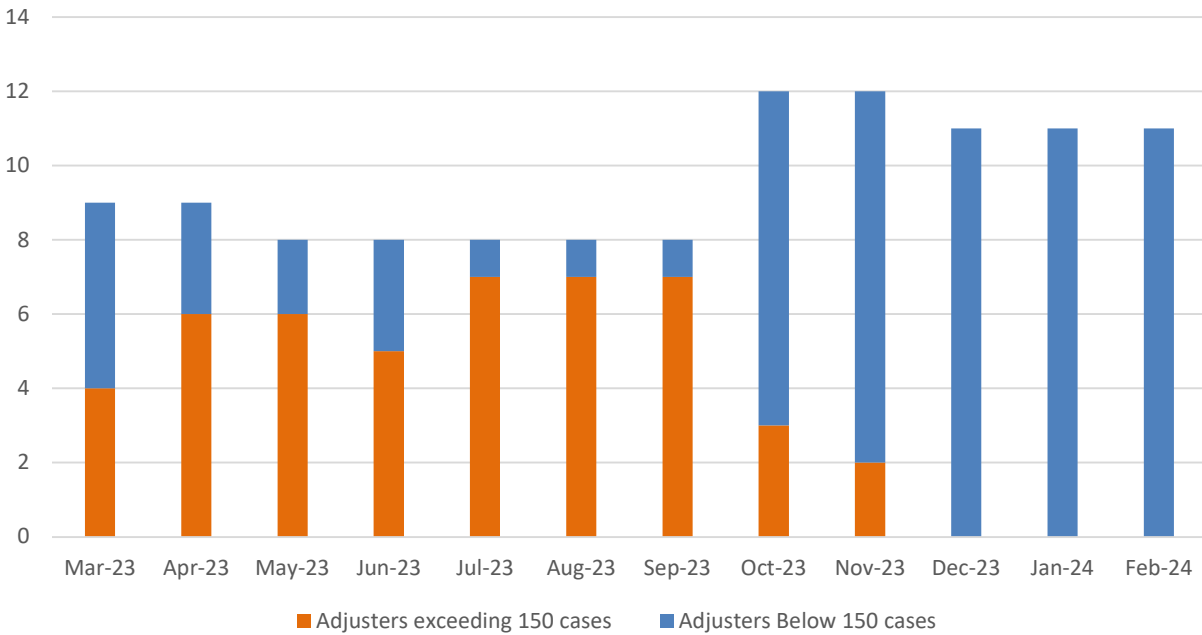
Adjuster caseloads exceeded contractual limits.

From March 2023 through February 2024, CCMSI employed between eight and 12 claim adjusters and two supportive care claim adjusters. For the period reviewed, we found at least two adjusters whose caseloads exceeded the contractual limits for nine months. Between July and September 2023, seven of the eight adjusters exceeded 150 cases. In total, CCMSI adjusters exceeded the contractual caseload limits by 718 files. In addition, the two adjusters working on supportive care claims exceeded 300 cases in every month reviewed. The supportive care adjusters exceeded the 300-caseload limit by 2,836 files.

The contract with CCMSI allowed HR to assess \$500 for each file over the caseload requirements on the monthly report. The contract allowed the City to waive or enforce performance guarantees and penalties at its discretion. HR received monthly adjuster caseload reports. According to the interviewed staff, HR considered assessing fees but decided to work with the contractor instead and requested a plan to address the issue. CCMSI was having difficulties attracting and retaining staff, which affected the number of cases in which adjusters worked. The Department could have assessed fees totaling \$395,000 for exceeding adjuster caseload limits and \$1,418,000 for excess supportive care adjuster files.

CCMSI added four new adjusters in October 2023, resulting in decreased caseloads. Starting in December 2023, only the supportive care adjusters exceeded contractual caseloads. HR is seeking to amend the contract to increase the caseload limit for supportive care adjusters to 500.

Claims Adjuster Caseloads



Adjuster caseloads exceeded contractual limits in 9 of the 12 months reviewed.

Adjusters were licensed as required by the contract.

The contract requires adjusters to be licensed before adjusting claims for the City. We requested licensing information for all adjusters as of March 2024. All but one adjuster had an active license with the State. The employee was granted a waiver by HR while seeking their license.

Recommendations

None

Scope, Methods, and Standards

Scope

We evaluated the processing of workers' compensation claims overseen by the HR Department and processed by CCMSI. We analyzed the submission of the Employer's Report of Industrial Injury form and the approval and denial of claims processed between March 2023, and March 2024. We also reviewed payments made for medical services on denied claims within the same period. We reviewed reports on the caseloads for CCMSI's adjusters from March 2023, through February 2024.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should implement control activities through policies.
 - Management should design control activities to achieve objectives and respond to risks.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Methods

We used the following methods to complete this audit:

- We interviewed HR staff.
- We reviewed the City's contract with CCMSI.
- We tested workers' compensation claims.
- We reviewed adjuster caseload reports.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of CCMSI's claims data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

Standards

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. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.