Roanoke City Public Schools
Audit Committee Meeting

January 21, 2016
11:00 AM to 12:30 PM
School Administration Building
Board Conference Room

1. Call To Order
   The Committee Chair will call the meeting to order.

2. Audit Report - Workers Compensation

   Documents: AUDIT REPORT - WORKERS COMPENSATION.PDF

3. Fees For School Audit Services - FY17

   Documents: ITEM 3 - SCHOOL AUDIT SERVICES FEES FY17.PDF

4. Other Business
   The Committee Chair will ask members of the Committee and staff if they have any other business for discussion.

5. Adjournment
   The Committee Chair will adjourn the meeting.

MUNICIPAL AUDITING REPORT

CITY OF ROANOKE PUBLIC SCHOOLS

ROANOKE

Workers Compensation

November 23, 2015

Report Number: 16-005
Audit Plan Number: 16-105

Municipal Auditing Department
Chartered 1974

www.roanokeva.gov/auditing
Phone 540.853.5235

TABLE OF CONTENTS

Audit Objectives & Scope 1

Background 3

Objective 1 – Safe Performance of Tasks 9

Objective 2 – Compensated Injuries within Scope of Job 12

Objective 3 – Reasonable Medical Care and Paid Recovery Time 14

Summary of Management Action Plans 26

Acknowledgments 28

AUDIT OBJECTIVES & SCOPE

Audit Objectives:

1. To determine if controls are in place and operating effectively to ensure employees can safely perform all tasks required of their position.

   Yes – We noted that job descriptions included the typical tasks and physical requirements of each position. The Employee Health Clinic performs a physical on each new employee, including administering a drug and alcohol screening, verifying the employee's general fitness to work. All employees view a professionally produced video on universal precautions and blood borne pathogens annually, as required by OSHA. Departments we surveyed also provided employees job specific training that addressed safety issues.

2. To determine if controls are in place and operating effectively to ensure compensated injuries were incurred within the scope of the employee performing his or her job.

   Yes with Exceptions – The form used to document work related accidents could be improved by prompting the employee and the supervisor for more specific information about the accident. We noted that some employees did not report their workplace injuries to the Employee Health Clinic within twenty-four [24] hours as required by policy. Supervisors were not explicitly required to complete their review of accidents on a timely basis.

3. To determine if controls are in place and operating effectively to ensure that medical care and paid recovery time are reasonable and appropriate.

   Yes with Exceptions – The Coordinator of Occupational and Student Health Services has substantial practical experience in occupational medicine and is a registered nurse. The Division has contracted with a large third party administrator (Sedgwick Claims Management Services) that provides a case management system, a preferred provider network, case manager and investigation services, and robust data analysis and reporting capabilities. While the processes for the day-to-day treatment of injuries and management of cases are well developed, we observed that there is not a comprehensive approach for analyzing claims experience and exposures. We also noted that the Division has no formal processes in place to monitor the performance of Sedgwick.

Audit Scope:

We reviewed the processes in place as of September 1, 2015, for the following aspects of occupational health and workers compensation claims management:

- New employee assessments
- Required safety training
- Reporting of workplace injuries
- Case management
- Indemnity Payments
- Reporting and Analysis

We generally sampled events, such as hiring and workplace injuries, that occurred during the period from September 1, 2014 through August 31, 2015. However, we sampled indemnity payments issued in October 2015 and we reviewed all workers compensation cases that had a nurse case manager and / or an investigator assigned at the time of our fieldwork in October 2015.

In collaboration with the Coordinator and based on the potential risks for workplace injuries, we selected the following departments to survey about the training and personal protective equipment provided to their employees:

- Facilities and Maintenance
- Food and Nutrition
- Warehouse
- Technology
- Special Education
- Student Health Services

We reviewed the service agreement signed with Sedgwick on June 1, 2010, and extended for an additional year on May 22, 2015. We reviewed the most recent actuarial study of Roanoke City Public Schools self-insured workers compensation program dated June 30, 2015. Finally, we reviewed various reports from Sedgwick, most notably a three-year scorecard comparing claims experience for the three years ending July 31, 2013, 2014, and 2015.

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 Services is responsible for overseeing, planning, and coordinating health and wellbeing activities for employees of Roanoke City Public Schools. A significant part of her role involves managing the Division's workers compensation program.

Roanoke City Public Schools contracted with Sedgwick Claims Management Services, Inc. [Sedgwick] to provide workers compensation claims management services on June 1, 2010. The contract provides for workers' compensation claims administration services, as well as a multitude of other services which help to mitigate the Division's workers compensation risks. The contract with Sedgwick provides preferred pricing for medical services through Sedgwick's Preferred Provider Organization [PPO] Network.

The Coordinator of Occupational and Student Health Services' assigned responsibilities related to workers compensation include the following:

- Performing pre-employment physicals, and drug and alcohol screenings
- Coordinating and monitoring required annual OSHA training for employees
- Providing safety and injury prevention training as requested
- Staying abreast of and ensuring compliance with workers compensation laws
- Assessing and treating employee injuries
- Referring injured employees to third party health care providers as needed
- Reviewing physician work notes and orders for injured employees
- Entering workplace injury reports into the Sedgwick claims management system
- Communicating with injured employees, Human Resources, Payroll, Sedgwick Claims Adjusters, nurse case managers, and the workers compensation attorney
- Approving requests for medical equipment, therapy, specialist referrals, etc., recommended by panel physicians

- Maintaining proper documentation of employee injuries in the employee health files
- Providing compensation information to Sedgwick for indemnity payments
- Requesting external services [i.e.; nurse case manager or private investigator] as needed
- Reviewing medical bills for appropriateness

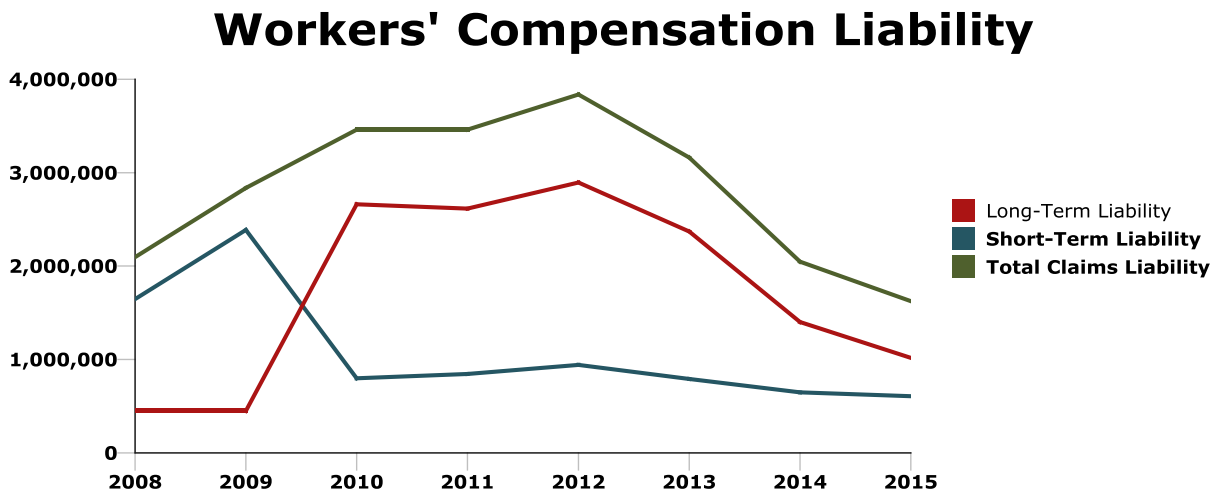
The Coordinator of Occupational and Student Health Services tracks workers compensation expenditures as they are reported from Sedgwick. She also reviews the cost per claim via the Monthly Allocation Report from Sedgwick. These are currently the only metrics being tracked.

The Coordinator is the only Division employee involved in the workers compensation process from a program-monitoring perspective. The Carilion Occupational Health Nurse assists with assessing and treating employee injuries, and there is a Carilion-provided department secretary that assists with setting up appointments for injured employees, filing, and other administrative duties. Other Division personnel involved in more limited aspects of the workers compensation process include:

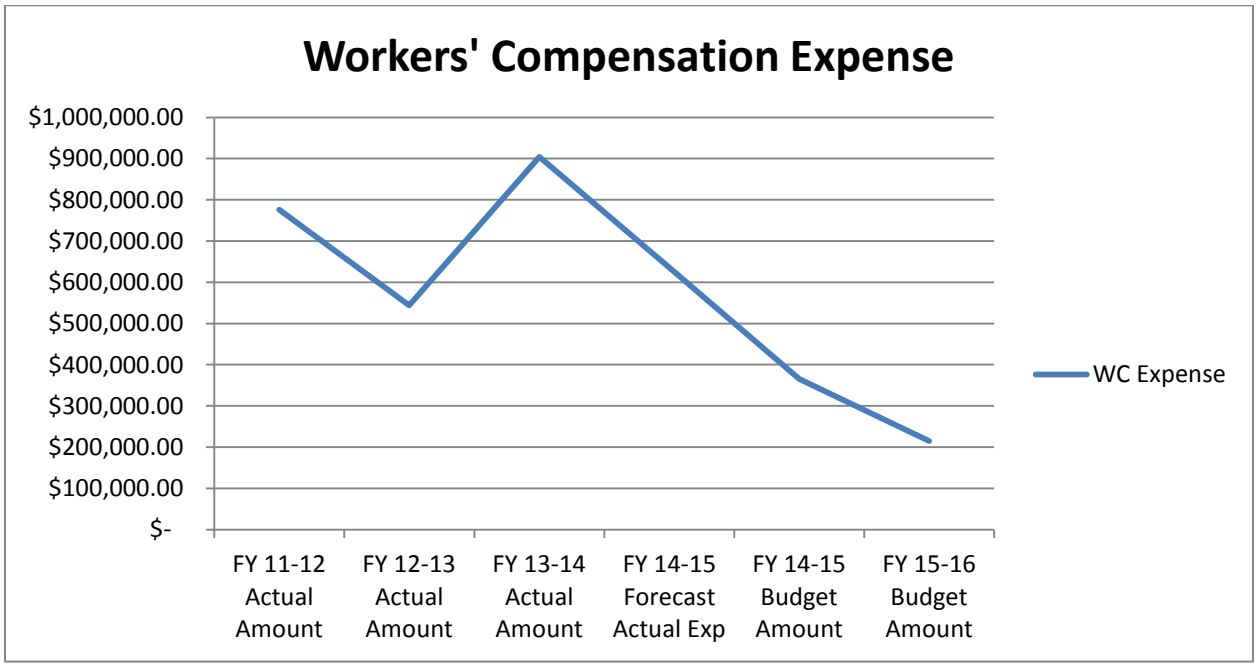
- Sandra Burks, Executive Director of Human Resources
- Nancy Bret, Employee Benefits Coordinator
- Kathleen Jackson, Chief Financial Officer
- Donna Caldwell, Director of Accounting
- Carisa Stallworth, Staff Accountant
- Betty Massey, Payroll Coordinator

Based on data taken from the Division's Comprehensive Annual Financial Reports for the years ending June 30, 2008 through 2014, and the actuarial study as of June 30, 2015, overall liability for workers compensation peaked in 2012 and has steadily decreased each year since.

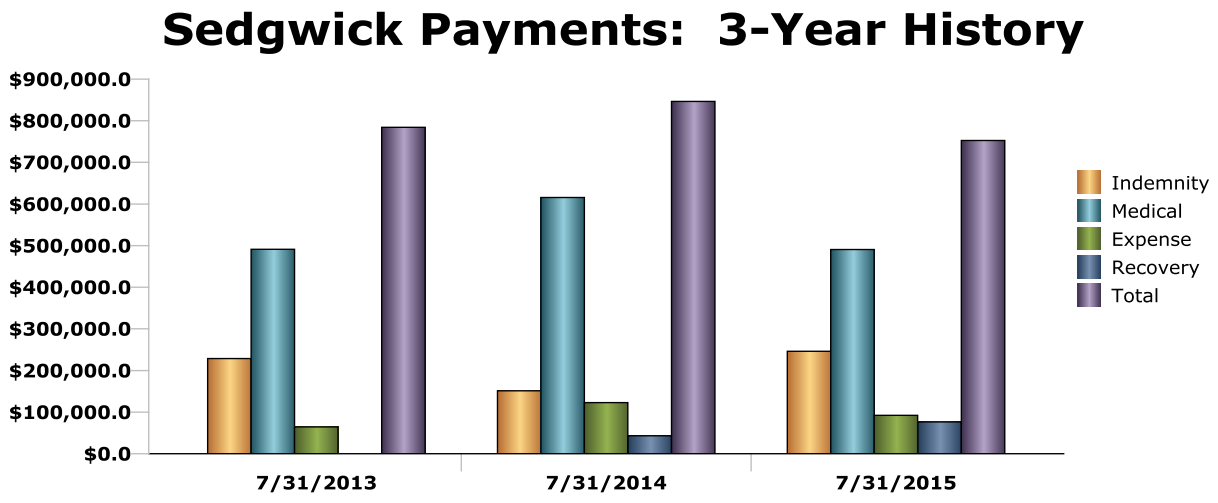
(See chart on following page)



Workers' compensation expenses are also currently trending down as seen in the following chart.

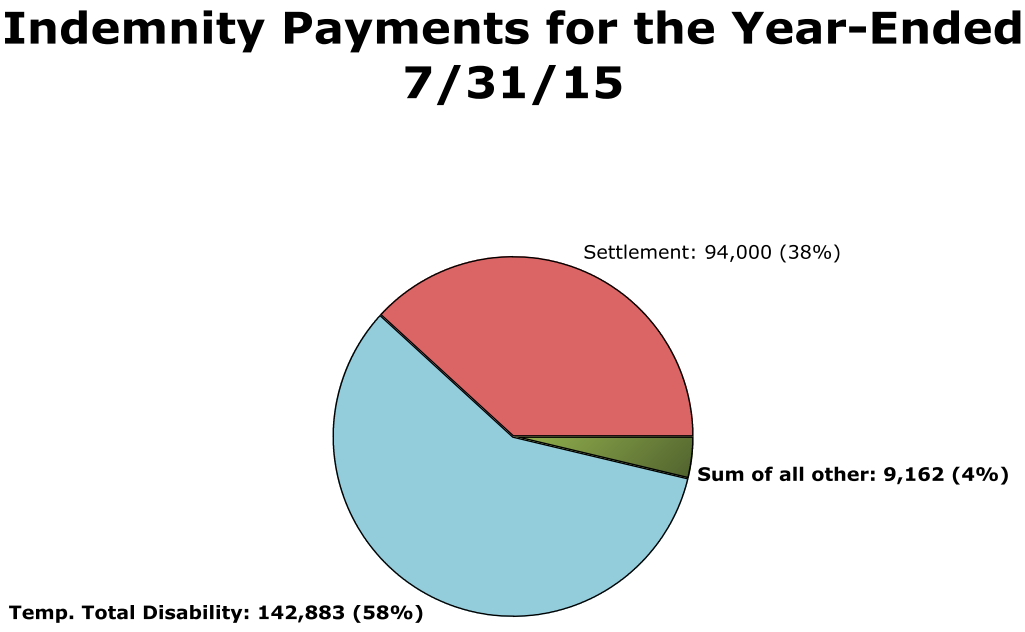


Sedgwick remits payments to employees, health care providers, workers compensation attorneys, and other vendors on behalf of Roanoke City Public Schools as they are the administrators of the program. The following chart illustrates the total amounts the school division has incurred for the years-ended 7/31/13, 7/31/14, and 7/31/15 for indemnity, medical, and administrative expenses:



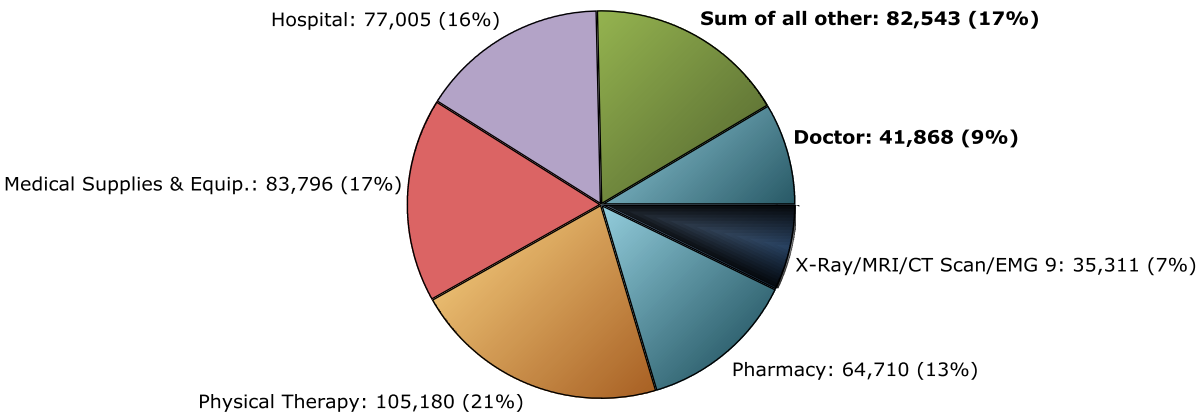
Note: Data obtained per Roanoke Public Schools Three-Year Score Card provided by Sedgwick

Broken down individually, the payments for the year-ended 7/31/15 are depicted on the following three [3] pie charts:



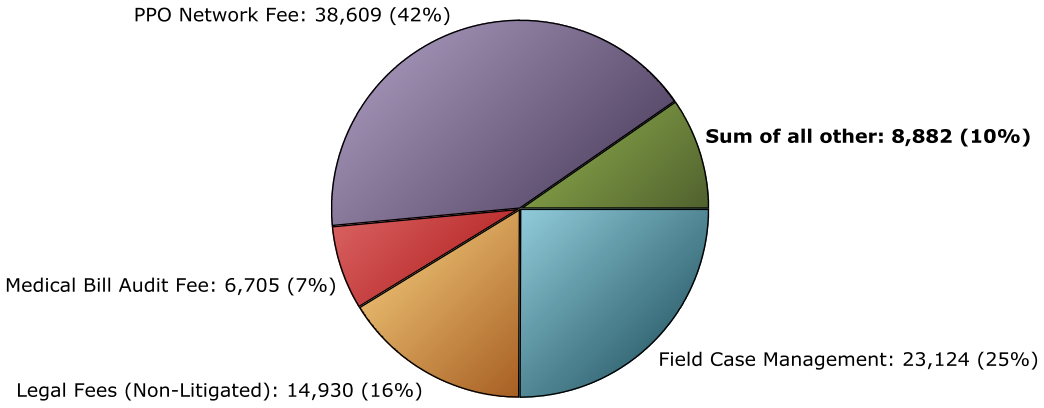
Note: Data obtained per Roanoke Public Schools Three-Year Scorecard provided by Sedgwick

Medical Payments for the Year-Ended 7/31/15



Note: Data obtained per Roanoke Public Schools Three-Year Scorecard provided by Sedgwick

Admin. Expense Payments for the Year-Ended 7/31/15



Note: Data obtained per Roanoke Public Schools Three-Year Scorecard provided by Sedgwick

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, administered by the Occupational Safety and Health Administration [OSHA] is relevant to workers' compensation regarding workplace safety, standards, and training requirements. The laws are complex, and it is essential for the Coordinator of Occupational and Student Health Services to understand and appropriately apply the laws throughout the workers' compensation process.

Currently, there is no significant internal reporting for workers' compensation. On an annual basis [due by January 31], the Coordinator of Occupational and Student Health Services must report all OSHA Claims [lost time, modified duty, death, and other OSHA applicable claims] to the U.S. Department of Labor. Additionally, all claims must be reported as they occur to the Workers' Compensation Commission. Sedgwick 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 Sedgwick.

AON Risk Solutions prepares the Division's annual actuarial study of its self-insured workers compensation program as of June 30. This study is based on workers' compensation data provided by Sedgwick. The Division provides AON with the actual payroll for the current year and payroll projections for two [2] future years for the actuarial study.

End of Background

OBJECTIVE 1: SAFE PERFORMANCE OF TASKS

AUDIT OBJECTIVE

Are controls in place and operating effectively to ensure employees can safely perform all tasks required of their position?

Yes

OVERVIEW

Fitness for Duty

The Human Resources department maintains and updates all job descriptions, which include basic job tasks, physical and mental requirements of the position, and any special requirements. The Coordinator of Occupational and Student Health Services and the Carilion Occupational Health Nurse consider the requirements listed in the applicable job description when conducting the pre-employment physical for a newly hired employee. Both the Coordinator and the Carilion Occupational Health Nurse are registered nurses and are responsible for performing all of the Division's pre-employment physicals.

During the pre-employment physical, the nurse notes any concerns about the employee's physical or mental fitness for work on the new employee assessment form. The nurse also administers a drug and alcohol screening as well as a tuberculosis risk assessment. Based on the results of the physical, the nurse documents her conclusion according to the following options:

- Medically acceptable for position under consideration.

- Medically acceptable with job assignment limitations [documents the limitations].

- Temporarily deferred for the following reasons [check all that apply]:
    - Pending correction of medical problem.
    - Additional medical information required.
    - Incomplete examination – required further medical evaluation.

- Not medically acceptable for position under consideration. Position and reasons are both documented.

A positive drug test must be confirmed with an independent lab. If the positive result is confirmed, the nurse notifies Human Resources that the person should not continue to be employed by the Division.

We reviewed a sample of employees hired between September 1, 2014 and August 31, 2015 and found that a pre-employment physical was performed in accordance with the Division's procedures in all cases.

Safety and Injury Prevention Training

The Occupational Safety and Health Act of 1970 was adopted with the goal of assuring safe and healthful working conditions for working men and women. The Occupational Safety and Health Administration [OSHA] publishes a training requirements manual that specifies the safety training that organizations must provide. The School Division contracts with a third party provider that produces video training through which employees receive all of the OSHA required training. The video, entitled "*Universal Precautions and Blood Borne Pathogens*," is delivered through on-line training software that captures the date each employee viewed the video. The Coordinator of Occupational and Student Health Services uses the software to monitor who completes the training.

We reviewed the contents of the "*Universal Precautions and Blood Borne Pathogens*" training course and concluded that it appears to satisfy the intent of the OSHA training requirements. The on-line training software provides a very effective means for delivering the course and monitoring who completes the training. The on-line training software indicates that the Division has achieved credible rates of compliance:

- 83% of employees completed the training for school year 2014/15
- 78% of employees completed the training for school year 2015/16

We surveyed a selection of departments to assess the awareness of departmental safety and injury prevention training, as well as the adequacy of personal protective equipment provided:

- Facilities and Maintenance
- Food and Nutrition
- Warehouse
- Technology
- Special Education
- Student Health Services

The survey revealed that departments provide required personal protective equipment at no cost and regularly train employees on working safely and avoiding injury. Facilities and Maintenance utilizes Grainger Safety Solutions as an online resource to provide and manage employee safety training. The Special Education Department uses a third party service to develop safety protocols and provide training on injury prevention. Crisis Prevention Institute

[CPI] procedures are used by the department for non-violent crisis intervention training. An eight [8] hour initial course, as well as an annual four [4] hour refresher course is required.

End of Objective 1

OBJECTIVE 2: COMPENSATED INJURIES WITHIN SCOPE OF JOB

AUDIT OBJECTIVE

Are controls in place and operating effectively to ensure compensated injuries were incurred within the scope of the employee performing his or her job?

Yes with exceptions

OVERVIEW

The New Employee Pamphlet, Roanoke City Public School Policy "Work-Related Injury Instructions," and Employee Handbook require employees to report all workplace injuries to the Employee Health Clinic within twenty-four [24] hours of suffering a workplace injury. A standard *Report of Accident to Employee* form must be used to report the injury.

One side of the accident form is completed by the employee and requests information about the time and nature of the injury, any witnesses to the injury, as well as the causes of the injury. It includes an acknowledgment below the signature line that states, in part, that any false or misleading information could result in disciplinary action, including dismissal. The other side of the form is for the supervisor to complete and is faxed in separately from the employee portion. The form does not ask if the employee was working as directed at the time of the injury, following required safety protocols, wearing proper work attire, or using equipment in accordance with safe operation guidelines. The supervisor portion of the form also does not include an acknowledgement that false or misleading information may result in disciplinary action. There are no procedures or instructions that explicitly state a supervisor is expected to promptly conduct his or her review of an accident.

The Coordinator for Occupational and Student Health Services reviews the employee's accident form as soon as received and evaluates the severity of the injury. Based on the severity of the injury, the Coordinator instructs the injured employee to do one of the following if he or she has not already taken action:

- Visit the Employee Health Clinic
- Visit one of the panel physicians
- Visit an Urgent Care facility
- Visit the Emergency Room

The Coordinator also evaluates the quality and consistency of the information in the accident report. If the veracity of the information is questionable, the Coordinator will have an employee photograph the scene and document any additional information that might be available and

relevant. The Coordinator enters information about the employee and his or her injury into the Sedgwick Claims Capture system or alternatively, she can fax the accident report directly to Sedgwick.

The Sedgwick Claims Adjuster conducts employee and witness interviews as necessary to determine if the claim meets the criteria for compensability under workers compensation. Per Section 65.2-101 of the Code of Virginia [Workers' Compensation Act], in order to recover on a workers' compensation claim, a claimant must prove:

1. Injury by accident;
2. arising out of, and;
3. in the course of employment.

The Sedgwick Claims Adjuster approves or denies the claim based on the criteria noted above, and files the claim with the Virginia Workers Compensation Commission. She notifies the Coordinator for Occupational and Student Health Services of the approval or denial, and then notifies the injured employee. If a claim is denied, the Sedgwick Claims Adjuster also sends the injured employee a denial letter via U.S. Mail.

We selected a sample of 10% of the employee injuries reported to the Employee Health Clinic from September 1, 2014 through August 31, 2015, for a total of 20 injuries. We noted the following:

- 3 of 20 claims were appropriately denied by Sedgwick
- 3 of 20 accident reports were not filed with the clinic within 24 hours
- 7 of 20 accident reports filed by employees were missing requested information
- 2 of 20 supervisor portions of accident reports were not on file
    - 4 of 18 that were on file were missing requested information

We believe that the design of the accident report is a primary cause for missing information.

End of Objective 2

OBJECTIVE 3: REASONABLE MEDICAL CARE AND PAID RECOVERY TIME

AUDIT OBJECTIVE

Are controls in place and operating effectively to ensure that medical care and paid recovery time are reasonable and appropriate?

Yes with exceptions

OVERVIEW

The Carilion Occupational Health Nurse or the Coordinator of Occupational and Student Health Services are both registered nurses. Employees suffering minor workplace injuries can immediately visit the Employee Health Clinic or can schedule an appointment if the injury does not require immediate care. The nurses treat injuries in accordance with standing orders prepared and signed by Dr. Hetzel Hartley, Carilion Occupational Medicine, which are kept on file in the clinic. The nurses document the examination and treatment provided on an *Employee Injury Report* that is kept in the employee's health file.

Injuries that are treated by the clinic and require no referral or missed work time are classified as "Incident Only" claims. These are entered into the Sedgwick claims management system to provide a complete record of all workplace injuries. The Coordinator of Occupational and Student Health Services also maintains a spreadsheet of all injuries on the departmental network drive as a secondary record of injury history.

Employees with significant, non-emergency injuries are referred to one of three local physicians groups specializing in occupational health, more commonly referred to as panel physicians. Employees with major injuries are immediately taken to the nearest urgent care or emergency room.

The treating physician completes a standard physician's work note for occupational injuries. The work note documents the following:

- Employee's name and employer
- Date of visit and date of injury
- Time under the physician's care
- Physician's name
- Diagnosis
- Work recommendations [full duty, modified duty and dates, or off work and dates]
- Restrictions [no lifting over xx pounds, no kneeling/squatting, etc.]

- Instructions [medications, physical therapy, etc.]
- Follow-up appointment date
- Referral to specialist if applicable
- Patient [employee] signature
- Physician signature
- Other medical staff signature
- Date, time, and method of employer notification

The Coordinator of Occupational and Student Health Services reviews the physician's work note and asks questions as needed to fully understand the injuries and treatment. The Coordinator evaluates the physician's care and treatment recommendations using *Official Disability Guidelines*. The *Guidelines* are a recognized industry standard and are accessible online via a login and password.

If the Coordinator questions the physician's recommendations for missed days, modified duty, or care, she contacts the Sedgwick Claims Adjuster. The Sedgwick Claims Adjuster contacts the physician for additional information and works with the Coordinator to evaluate the care and treatment plan.

Third Party Administrator

We reviewed the service agreement with Sedgwick, as well as marketing and benchmarking information published on the company's website. This information outlines the responsibilities assumed by Sedgwick and the ways in which the company's services help to mitigate Roanoke City Public School's workers compensation risks. We confirmed our understanding directly with Sedgwick personnel who provided additional details about the company's services as well as the purpose and meaning of various data and reports.

We concluded that Sedgwick's services are a key component of the Division's system of internal controls over workers compensation risks. The following list describes some of the more important services provided by Sedgwick:

- Provider Fee Management – bill review process to reveal excessive, duplicate, or inappropriate charges

- Hospital Bill Review – bill review by a nurse for possible errors or excessive charges relative to the employee's medical diagnosis

- Utilization Review – reviews prior to, during, and after treatment, conducted by a nurse to validate or negotiate the necessity, setting, frequency, intensity and duration of care delivery

- Pharmacy Review – review of all current medications prescribed to the employee as well as all over-the-counter medications being taken by the employee to evaluate whether the medications are appropriate for treatment of the injury or ailment

- Complex File Review – bills meeting specific pre-established criteria may be reviewed by a nurse for possible errors or excessive charges relative to the employee's diagnosis

- Preferred Provider Organization [PPO] Networks – access and channeling to national and regional networks of providers with whom discounted pricing has been negotiated

- Out-of-Network Bill Review – bill review and negotiation with the provider if appropriate

- Specialty Usual and Customary Review – geographic charges and cost-to-charge ratios are applied to determine reimbursement of medical services billed that are not addressed within the jurisdictional fee schedule or usual and customary reimbursement

- Prescription Services – network of pharmacies that provide prescription medications related to the injury with no out of pocket expenses to the employee

- Field Case Management – nurse case managers and vocational management services

- Special Investigations Unit [SIU] – national listing of approved investigators

Indemnity Payments

When a physician prescribes rest and recovery time away from work, the employee must use paid leave for the first seven (7) calendar days after the injury. The law requires indemnity payments to begin on the eighth calendar day and to continue for up to 500 weeks if necessary.

- Days 1 thru 7: Paid leave or no pay if employee has no leave balance.

- Days 8 thru 21: Sedgwick begins paying indemnity at 66 2/3% of employee's average weekly gross pay based on a 52 week look back period.

- ≥ 22 Days: Sedgwick goes back and pays indemnity for the first week [days 1 thru 7] and continues paying weekly indemnity until the employee returns to work. Payroll restores 2/3 of the employee's paid leave balances used during the first seven calendar days after injury.

The Coordinator of Occupational and Student Health Services notifies the Human Resources department, the Payroll department, and the employee's supervisor about the rest days prescribed by the physician. Each pay period, the employee's department completes a service

report marking the work days missed due to injury. The Payroll department compares the workers compensation days on the service report with a weekly indemnity report provided by Sedgwick. Employees can choose to receive paid leave for the 33 1/3% of their weekly pay not covered through indemnity. Employees must continue paying their portion of health insurance premiums and other similar deductions.

The Payroll department includes workers compensation in its overall payroll balancing process each pay period. Payroll employees key absences separately into a spreadsheet and the payroll system. The two records must balance before the payroll is processed and payments are released.

We reviewed payroll balancing documentation for a sample of pay dates between September 1, 2014 and August 31, 2015, and confirmed that workers compensation totals were in balance between the spreadsheet and payroll system.

There were five (5) employees receiving indemnity payments in October 2015. We recalculated the indemnity payments for two (2) of the five (5) and noted errors in both cases:

- An injured employee returned on the ninth day after injury and was therefore owed indemnity for day eight. The employee was a 10-month employee and did not work for eight (8) weeks during the summer. The average weekly pay calculation incorrectly included those eight weeks when no time was worked and no pay received. One pay period was also incorrectly excluded due to a misinterpretation of the pay cycle cut off. These errors resulted in an underpayment of indemnity for the one day. An additional payment of $18.17 has been issued.

- An injured employee who has been receiving indemnity payments for many months was granted a cost of living adjustment. The adjustment was erroneously doubled beginning in July 2015. The resulting over payment was $170.94 which will be recovered over time through a small adjustment to the weekly payment.

Modified Duty Program

The standard physician's work note completed by the panel physician includes a section for modified duty in which the physician can note any restrictions in terms of lifting, hours worked, etc. When a physician recommends modified duty, the Coordinator of Occupational and Student Health Services notifies the Human Resources department and the injured employee's supervisor. The Coordinator works with the supervisor to determine if a modified duty assignment can be accommodated, using the "Zenith" physical demand definitions from the dictionary of occupational titles published by the Department of Labor as a guide.

An injured employee must accept a modified duty assignment if offered. If the employee refuses the assignment, indemnity payments are suspended.

If the injured employee's department cannot accommodate a modified duty assignment, the Executive Director of Human Resources attempts to find assignments in other departments. The injured employee continues to receive indemnity payments if an appropriate modified duty assignment is not identified.

We reviewed a sample of employees injured from September 1, 2014 through August 31, 2015 to determine if modified duty recommendations were accommodated. We observed that the Division was able to accommodate modified duty assignments recommended by physicians in all cases.

Nurse Case Manager

The Coordinator of Occupational and Student Health Services assigns a nurse case manager based on her personal judgment and discretion. The following risk factors generally guide her decisions:

- Comorbidity of injury
- Number of claims the employee has filed
- Type of injury
- Severity of injury
- Multiple site [on the body] injury
- Date of hire
- Cost / benefit

The nurse case manager accompanies the injured employee to medical appointments and works with the employee to help ensure treatments and therapies are effective. The nurse case manager provides a written report to the Coordinator and the Sedgwick claims adjuster after each physician visit as well as a monthly progress report. The Coordinator monitors the effectiveness of the nurse case manager based on the quality of the reports and patient progress.

We reviewed the files for all five [5] workers' compensation claims to which a nurse case manager was assigned at the time of our field work. We evaluated the risk factors exhibited in each case and confirmed that a case manager was warranted.

Private Investigator

The Coordinator of Occupational and Student Health Services evaluates the need for a private investigator using her past experience and considering:

- The nature of previous claims by the employee
- Type of injury
- Out of the ordinary length of time for recovery

The Coordinator discusses the decision to use a private investigator with the Human Resources department, the workers compensation attorney, and the Sedgwick Claims Adjuster. Sedgwick is responsible for engaging the private investigator who then reports to Sedgwick. All evidence, including photographs, surveillance and interview notes are submitted to Sedgwick and filed electronically in the case management system. The Sedgwick Claims Adjuster briefs the Coordinator on the results of the investigation and the investigator's conclusions. Sedgwick notifies the treating physician when an investigation confirms the employee faked incapacity. The physician then meets with the employee and informs them of the investigation before issuing a full duty release.

There was only one [1] workers' compensation case in which a private investigator was used during our audit period from September 1, 2014 through August 31, 2015. We reviewed the file and based on the risk factors exhibited, concluded that the assignment of an investigator was warranted.

Risk Management

The Coordinator of Occupational and Student Health Services manages the day-to-day activities of the workers compensation program:

- Treating employee injuries
- Consulting with the Sedgwick Claims Adjuster on active cases
- Reviewing physician notes, nurse case manager reports
- Communicating with departments
- Communicating with injured employees
- Communicating with caregivers

The Chief Financial Officer in conjunction with the Director of Accounting reviews the annual actuary report as an aid in estimating the short and long term liabilities for financial reporting and to budget reserves. They also work with Willis Consulting to evaluate workers compensation retention insurance and to select an insurance provider.

No department or position has been assigned responsibility for reviewing historical workers compensation experience, evaluating cost drivers and loss controls, considering future exposures, or leading an overall risk control program. The Coordinator of Occupational and Student Health Services is working to create a Risk Management Committee that would help fill this void.

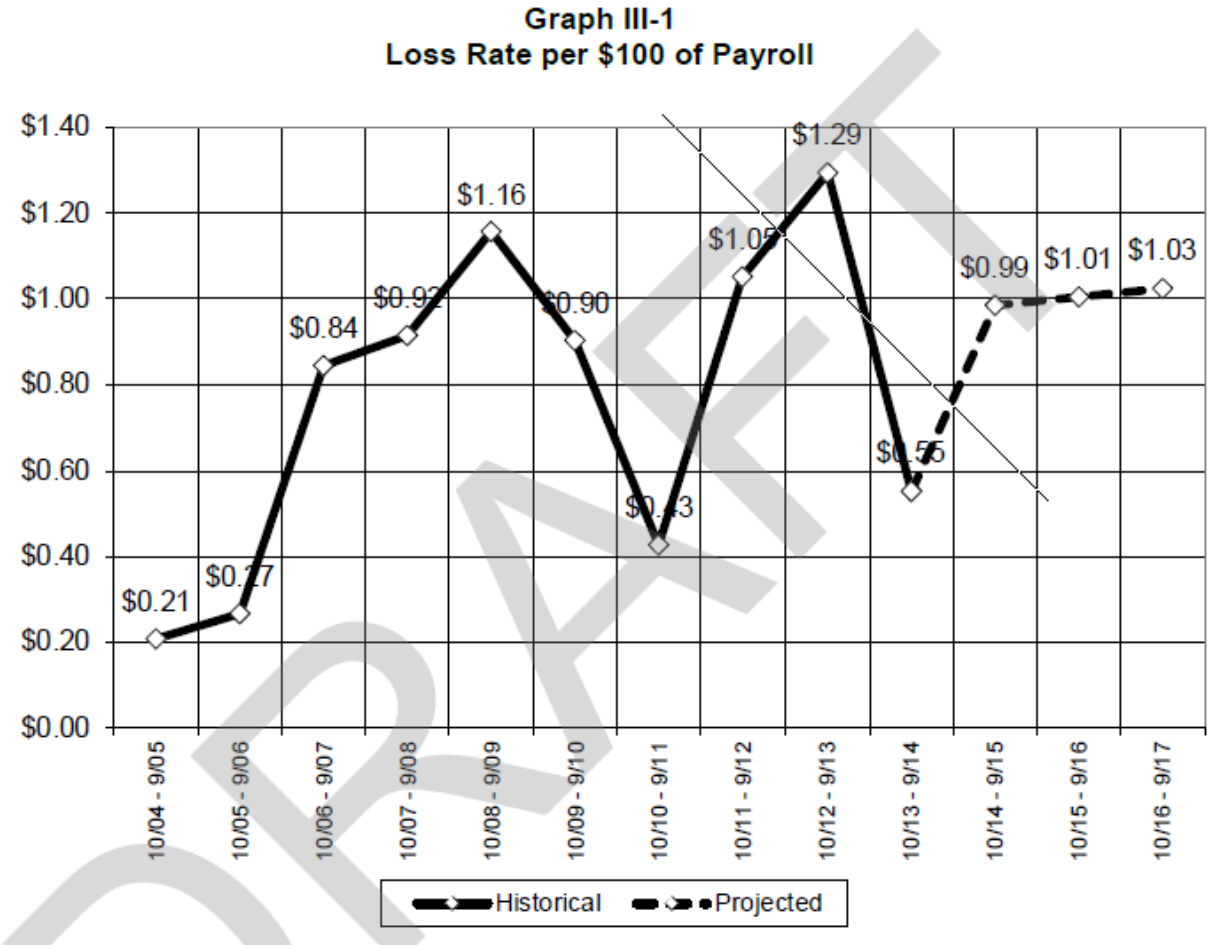
Based on our research, a risk management committee should have three primary responsibilities:

1. Identify the exposures
2. Develop a risk control program
3. Establish a risk strategy

(Continued on next page)

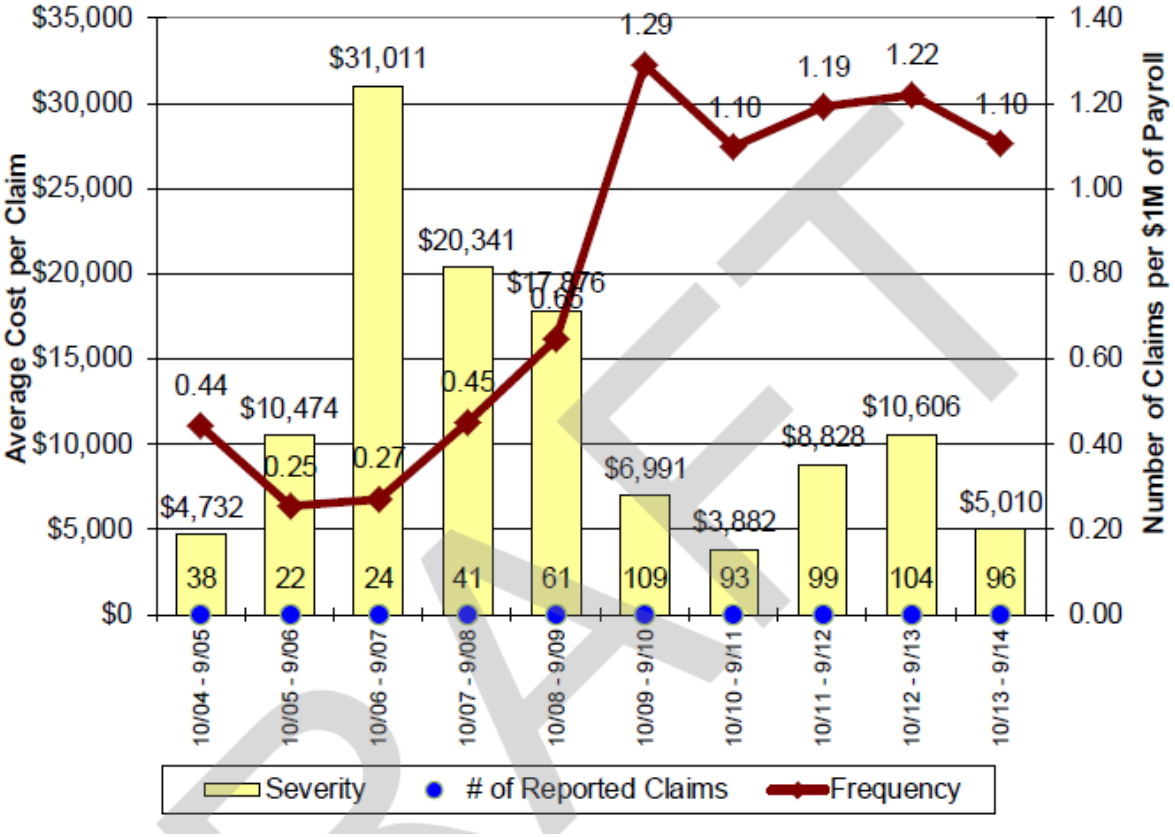
We reviewed the Actuarial Study of the Self-Insured Workers Compensation Program as of June 30, 2015 prepared by AON Risk Solutions to identify information that might be beneficial to a risk management committee. The report contains a multitude of information that could contribute to a better understanding of workers' compensation exposures, including the following:

1. Graph III-1 and III-2 from the Actuarial Report show loss experience trends over the past ten [10] years as measured by loss rate per $100 of payroll [III-1] and frequency and severity [III-2]. This provides a good benchmark across time of how workers' compensation is trending as payroll increases. Graph III-2 also identifies the volume of claims each year, which could be tracked to identify patterns, or whether the volume increases and/or decreases as expected [in conjunction with the volume of employees].



DRAFT

Graph III-2
Frequency and Severity



(Continued on next page)

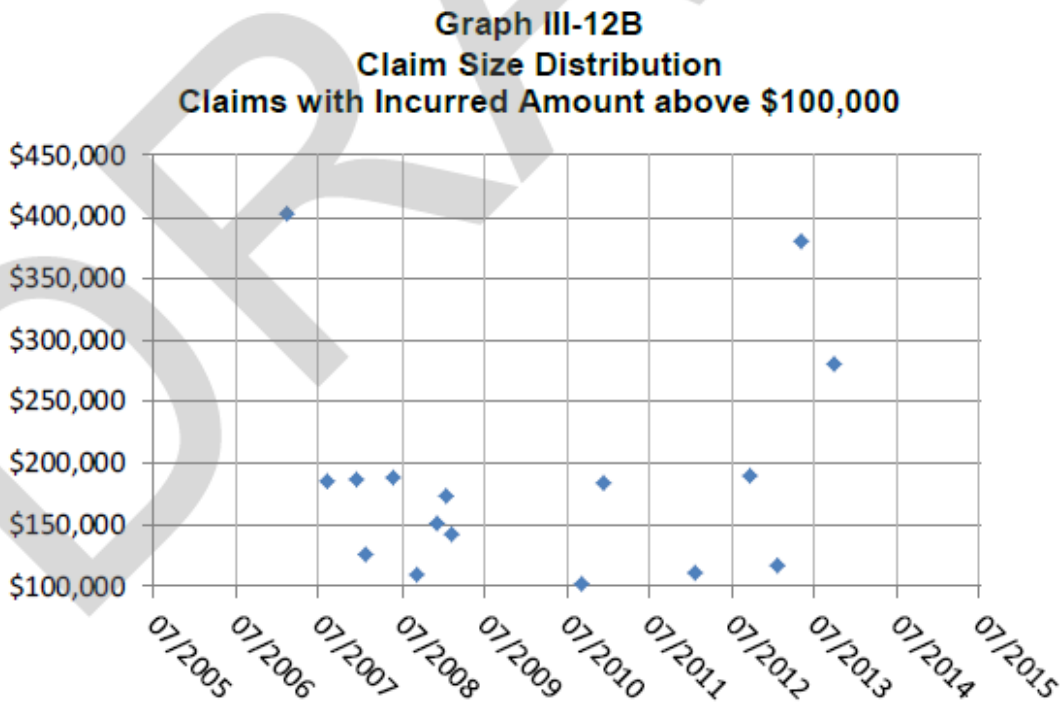
2. Table III-4 from the Actuarial Report shows that about 92% of the non-zero claims reported are below $10,000 and represent about 14% of the incurred amounts. The remaining 8% of the claims consume about 86% of the incurred amounts. Furthermore, it illustrates that there have only been twenty [20] reported incurred losses greater than $100,000 for the time period reported which was included on a separate table within the report [1997 through 2013].

Table III-4
Size of Loss Distribution

Layer (1)	Total Reported Claims (2)	Percent of Total (2)/Total(2) (3)	Cumulative Percent of Total (4)	Total Reported Incurred Losses (5)	Percent of Total (5)/Total(5) (6)	Cumulative Percent of Total (7)
(A) $1 to $5,000	1,672	89.3%	89.3%	$984,015	10.2%	10.2%
(B) $5,000 to $10,000	49	2.6%	91.9%	349,906	3.6%	13.8%
(C) $10,000 to $25,000	62	3.3%	95.2%	1,019,341	10.5%	24.3%
(D) $25,000 to $50,000	42	2.2%	97.5%	1,471,093	15.2%	39.5%
(E) $50,000 to $100,000	27	1.4%	98.9%	1,878,057	19.4%	59.0%
(F) $100,000 to $250,000	17	0.9%	99.8%	2,825,173	29.2%	88.2%
(G) $250,000 to $500,000	3	0.2%	100.0%	1,144,390	11.8%	100.0%
(H) $500,000 to $750,000	0	0.0%	100.0%	0	0.0%	100.0%
(I) $750,000 to $1,000,000	0	0.0%	100.0%	0	0.0%	100.0%
(J) Over $1,000,000	0	0.0%	100.0%	0	0.0%	100.0%
(K) Total (A) … (J)	1,872	100%		$9,671,974	100%	

(Continued on next page)

3. Graph III-12B, Claim Size Distribution, illustrates that from July 2005 through July 2014, only two [2] claims incurred an amount above $350,000: one [1] claim occurred between 2006-2007 and the other one [1] occurred between 2012-2013. This information could be useful in analyzing the excess coverage amount.



We also reviewed the Sedgwick Three-Year Scorecard to identify information that could be beneficial to a risk management committee in the analysis of workers compensation trends and/or identification of risks. We found the following tabs of the spreadsheet to contain useful information:

- Year-to-Date Losses by Location: The information contained in this section could be used to identify locations [if any] which continue to have claims year after year. This information could indicate potential training opportunities.

- All Open Claims by Account: The information contained in this section could be used to identify locations with open claims and the total paid, total reserves, and total incurred on those claims. This information could indicate potential training opportunities.

- Pay Code Analysis: The information contained in this section could be used to identify the majority of RCPS's spending. Those areas could be a focal point for attempting to reduce costs.

- Top 25 YTD Total Payments: The information contained in this section could be used to focus on those claims with the highest incurred costs in order to initiate settlement.

End of Objective 3

SUMMARY OF MANAGEMENT ACTION PLANS

Management Action Plan – A 3.1 Supervisor Accident Reports

The current Employee Report of Accident, while compliant with OSHA reporting regulations, lacks reporting prompts for supervisor investigation of incidents which would support a proactive approach to risk management activities such as trends and identification and correction of problem areas/situations. The current reporting document will be redesigned to include specific supervisory investigative prompts and will provide vital information related to accident, allowing a more thorough and beneficial risk management assessment of each incident.

Research and development of a new reporting tool will be completed in 6 months.

Assigned To	Target Date
Karen Switzer, RN, Coordinator of Occupational and Student Health Services (COSHS) in consult with Sandra Burks, Executive Director of Human Resources and other members of the Executive Staff as deemed necessary.	5/15/16

Management Action Plan – A-3.2 Employee Accident Reports

Potential employees, during pre-employment health assessment appointments, are given verbal and written instruction of the injury reporting process. This will continue. Additionally, the Employee Health Nurse has begun visiting individual school faculty meetings to review the accident reporting process. This process will continue.

The COSHS consistently completes follow-up with injured workers when indicated to assist in the determination of compensability. Information obtained following the injury however, is not added to the accident report but is entered into Sedgwick ViaOne system and to Progress notes in the individual employee health file. Redesign of the Report of Accident form will allow for more complete employee reporting of the incident which will minimize missing information and will provide more complete risk management evaluation and planning processes. The new reporting tool will include space for additional accident-related information by the COSHS.

Research and development of a new reporting tool will be completed in 6 months.

Assigned To	Target Date
Karen Switzer, RN, Coordinator of Occupational and Student Health Services.	5/15/16

Management Action Plan – A-3.3 Timeliness of Accident Reporting

#1 - The COSHS will create and publish an electronic page within the Employee Health Department site (within the RCPS website) outlining the procedure for reporting employee accidents. The additional site will be completed within 3 months.

The Employee Health Nurse will continue to visit faculty meetings in individual schools to review the accident reporting policy/procedure. These visits began in the Spring of 2015 and will be ongoing.

#2 - The redesign of the Employee Report of Accident will include prompts for documentation of reason(s) for delayed reporting of injuries. Research and development of a new reporting tool will be completed in 6 months.	
Assigned To	**Target Date**
Karen Switzer, RN, Coordinator of Occupational and Student Health Services, Carilion Employee Health Nurse.	#1 – 1/29/16 #2 – 5/15/16

Management Action Plan – A-3.5 Risk Management Committee

A multidisciplinary Risk Management Committee will be developed to identify worker's compensation exposure and develop strategies to manage and minimize those exposures. The committee will consistently, on a quarterly basis, review claims data provided by the third party administrator to identify trends, assess and mitigate loss prevention and injury risk. Records of reviews and actions taken will be maintained by the COSHS.

The Risk Management Committee will be convened within 3 months.

Assigned To	**Target Date**
Karen Switzer, COSHS and Sandra Burks, Executive Director of Human Recourses.	2/29/16

Management Action Plan - A-3.6 Indemnity Payments

1- The discrepancies in indemnity payments identified by the auditor have been or will be corrected by Sedgwick Claims Management.

2- Investigation of Virginia Worker's Compensation code will be completed to determine the formula(s) for correctly calculating indemnity payments to injured workers.

3- A sample of an injured worker receiving indemnity will be chosen for review on a monthly basis to determine the correctness of the indemnity payment. This process will be developed as an ongoing protocol.

Recovery of indemnity overage identified will be complete within 6 months. The under payment has been resolved.

Investigation and development of a protocol for validation of indemnity payments to RCPS injured workers will be completed in 3 months.

Assigned To	**Target Date**
Karen Switzer, COSHS and Betty Massey, Payroll Coordinator.	2/29/16

ACKNOWLEDGEMENTS

We would like to thank the Occupational and Student Health Services Department, specifically Karen Switzer, for her assistance and cooperation throughout this audit. We would also like to thank Sandra Burks, Executive Director of Human Resources, Kathleen Jackson, Chief Financial Officer, Donna Caldwell, Director of Accounting, Peggy Long, Purchasing Manager, Betty Massey, Payroll Coordinator, Jeff Shawver, Chief of Physical Plants, Ellen Craddock, Assistant Director of Food and Nutrition, Floyd Gregory, Supervisor of Warehouse Support Services, Mark Thompson, Director of Technology, and Rita Willis, Director of Special Education and Preschool Programs. Finally, we would like to thank Carlos Alvarez, Sedgwick Manager Client Services, and Donita Jackson, Sedgwick Claims Team Lead, for their time and cooperation during this audit.

Cari M. Spichek, CIA
Senior Auditor

Drew Harmon, CPA, CIA
Municipal Auditor

Roanoke City Public Schools Audit Services 1/21/16

FY 2016-2017

Background:

Per Ordinance 35580-91701, City Council requires that the Municipal Auditing Department conduct continuing financial and performance audits of the affairs and records of the School Board.

In accordance with School Board Policy DIB, "School Audit Services," the School Board utilizes the services of the Municipal Auditing Department to help ensure the school system complies with all financial and regulatory requirements under federal, state and local statutes and to facilitate effective and efficient operations within the Division.

The Municipal Auditing Department provides a minimum of 1,600 chargeable hours towards auditing and consulting work specific to Roanoke City Public Schools. The department has three CPAs, two Certified Internal Auditors, one Certified Fraud Examiner, and one Information Systems Auditor, providing a greater breadth of knowledge and experience than one full time person could typically offer.

Roanoke City Public Schools reimburses the City 125% of the salary mid-point for a Senior Auditor to help offset the City's costs. All current members of the Auditing Department have senior level experience and their salaries are above the salary mid-point.

Fee Computation for Fiscal Year Ending June 30, 2017:

Min	Max	Mid-Point	@125%
$43,037	$68,860	$55,949	**$69,936**

Audit Services Fee Last Year [FY16]:	$66,924	
Year-Over-Year Increase for FY17:	$3,012	4.50%

Prepared by: Drew Harmon
Municipal Auditor

Attachments: Pay Plan July 1, 2015
Ordinance 35580-91701
Board Policy DIB - School Audit Services

Pay Plan

July 1, 2015

Pay Grade	Minimum Biweekly (Hourly)	Minimum Annual Salary	Maximum Annual Salary	Maximum Biweekly (Hourly)
4	$758.24	$19,714.24	$31,542.94	$1,213.19
	9.4780			15.1649
5	$796.17	$20,700.42	$33,120.36	$1,273.86
	9.9521			15.9233
6	$855.84	$22,251.84	$35,603.36	$1,369.36
	10.6980			17.1170
7	$921.95	$23,970.70	$38,353.12	$1,475.12
	11.5244			18.4390
8	$1,018.61	$26,483.86	$42,374.28	$1,629.78
	12.7326			20.3723
9	$1,125.54	$29,264.04	$46,822.88	$1,800.88
	14.0693			22.5110
10	$1,243.82	$32,339.32	$51,742.60	$1,990.10
	15.5478			24.8763
11	$1,331.43	$34,617.18	$55,387.54	$2,130.29
	16.6429			26.6286
12	$1,484.53	$38,597.78	$61,756.50	$2,375.25
	18.5566			29.6906
13	$1,655.29	$43,037.54	$68,859.96	$2,648.46
	20.6911			33.1058
14	$1,845.60	$47,985.60	$76,777.22	$2,952.97
	23.0700			36.9121
15	$2,057.86	$53,504.36	$85,607.08	$3,292.58
	25.7233			41.1573
16	$2,324.51	$60,437.26	$96,699.98	$3,719.23
	29.0564			46.4904
17	$2,591.81	$67,387.06	$107,819.66	$4,146.91
	32.3976			51.8364
18	$2,889.86	$75,136.36	$120,218.80	$4,623.80
	36.1233			57.7975
19	$3,262.22	$84,817.72	$135,708.04	$5,219.54
	40.7778			65.2443
20	$3,637.36	$94,571.36	$151,314.02	$5,819.77
	45.4670			72.7471

(21)

IN THE COUNCIL OF THE CITY OF ROANOKE, VIRGINIA,

The 17th day of September, 2001.

No. 35580-091701.

AN ORDINANCE directing and providing for audits of certain affairs and records of the School Board of the City of Roanoke, and dispensing with the second reading of this ordinance.

WHEREAS, §56 of the Roanoke Charter of 1952 provides that Council, at its discretion, may "by ordinance provide for an audit of the affairs and records of the School Board by the municipal auditor or by any other competent person or firm selected by the Council;" and

WHEREAS, Council desires to have the Municipal Auditor conduct continuing financial and performance audits of the affairs and records of the School Board, pursuant to the provisions of an audit plan to be developed by the Municipal Auditor, Council's Audit Committee and the School Board.

THEREFORE, BE IT ORDAINED by the Council of the City of Roanoke as follows:

1. The Municipal Auditor be and he is hereby authorized and directed to conduct financial and performance audits of the affairs and records of the School Board, such audits to be pursuant to the terms of letters of engagement from the Municipal Auditor based on an audit plan to be developed by the Municipal Auditor, City Council's Audit Committee and the School Board; provided that such audits shall not interfere with the day-to-day operations of the School system or the School Board's supervision of such operations.

2. Pursuant to the provisions of §12 of the City Charter, the second reading of this ordinance by title is hereby dispensed with.

ATTEST:

City Clerk.

SCHOOL AUDIT SERVICES

I. Purpose

In order to help ensure the school system complies with all financial and other regulatory requirements under federal, state and local statutes and to facilitate effective and efficient operations within the Division, the School Board utilizes the services of the City of Roanoke's Municipal Auditing Department. In an effort to create a smooth and productive process for conducting school audit services with the City's Municipal Auditor, the School Board adopts the following guidelines.

II. Audit Committee

A. The School Board has established an Audit Committee to work with the Municipal Auditor to review and recommend specific areas of Division operations to be audited.

B. The Audit Committee shall review the annual audit plan and any subsequent changes to such audit plan.

C. The Audit Committee shall review and discuss all audit reports and management responses in an effort to facilitate operational improvements within the Division.

D. The Audit committee shall work with the Municipal Auditor to make recommendations of the areas of school operations which are to be audited each year. These recommendations of which areas of school operations which are to be audited will be forwarded to the School Board in the form of an audit engagement letter. The School Board shall render its decision as to which areas of school operations are to be audited by its final approval of the audit engagement letter.

III. Audit Committee Meetings

The Audit Committee shall meet as needed, but not less than once per quarter. The time and place of committee meetings shall be set by the committee chair in accordance with state and local statutes. The Municipal Auditor shall maintain minutes of the meeting, which will be approved by an affirmative vote of the majority of committee members present.

IV. Audit Engagement Letters

An audit engagement letter shall be drafted for each area of the school operations to be audited. The audit engagement letter shall include the audit objectives, scope, methodology to be utilized, and specify the timeframe within which such audit is to be completed. The audit engagement letter shall be prepared initially by the Municipal Auditor with input from the Audit Committee. Following the Audit Committee's approval of the terms of the audit engagement letter, it will be forwarded to the School Board for final approval.

V. Audit Reports

A. Preliminary Audit Report – The Municipal Auditor shall provide the Audit Committee and the School Administration with a preliminary audit report containing audit recommendations at least thirty (30) days prior to the issuance of any final audit report. The School Administration shall have thirty (30) calendar days to prepare management responses and recommendations regarding corrective actions to both the Audit Committee and the Municipal Auditor.

B. Final Audit Report – The Municipal Auditor shall incorporate any management responses or corrective actions taken by the School Administration into its final audit report and shall describe such corrective actions implemented as of the date of the final audit report. The Municipal Auditor will issue the final audit report to the Audit Committee and provide copies to the Superintendent and affected School Administration departments. The Audit Committee will present the final audit report to the School Board for final disposition.

Adopted: October 9, 2007
Reviewed: August 12, 2012
Legal Refs.: Roanoke City Charter Section 56.
Cross Refs: DI—Financial Accounting and Reporting