

Report #2025-03

WORKERS' COMPENSATION DISABILITY SETTLEMENT PROCESS AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

02.11.2025



Contents:

A. Overview.....	3
B. Action Plan and Target Completion Dates.....	4
C. Background	4
D. Objective, Scope and Methodology	7
E. Observations, Recommendations, & Management Responses Matrix.....	9
Appendix 1: Definitions of Priority Rankings and Value-Added Categories.....	14

Distribution List:

For action:	Dania Portillo, Workers' Compensation Administrator Paula Adams, Chief Human Resources Officer
For information:	Michael Garcia, City Attorney Roubik Golanian, City Manager John Takhtalian, Assistant City Manager/Interim Director of Finance Audit Committee City Council

Acknowledgment

We would like to thank staff from the Human Resources Department for the support and assistance provided throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Ani Antanesyan, Sr. Internal Auditor, or Natalie Minami-Valdivia, Principal Internal Auditor at InternalAudit@glendaleca.gov

This report is also available online at <https://www.glendaleca.gov>

A. Overview

Key Outcomes

The City of Glendale's Human Resources Department (HRD) Workers' Compensation (WC) Division oversees a Third-Party Administrator (TPA) responsible for managing WC claims for the City's employees. As part of its commitment to continuous improvement, Internal Audit conducted a review of the WC disability settlement process, the TPA Professional Services Agreement (PSA), sample Settlement Authorization Requests (SARs), and available WC claims data. The review confirmed that final settlement amounts on a sample of SARs were accurate. Additionally, opportunities for enhancement were identified to further strengthen the process: 1) Establish and document quality control procedures to ensure that SARs are accurately referencing all disability and apportionment ratings; 2) Ensure that the TPA provides comprehensive written settlement recommendations and assists the City in developing documented WC procedures; 3) Implement a consistent process to reconcile invoices and obtain reports from the TPA to effectively monitor open claims and claim type changes; 4) Strengthen controls over TPA self-imposed penalties and ensure appropriate reimbursement to the City, when applicable, 5) Update the City's Administrative Policy Manual (APM) related to WC, and 6) Establish documented Key Performance Metrics (KPIs) to effectively monitor the TPA's performance.

Impact Dashboard

This table summarizes the applicable value-added categories (total 18) for the six recommendations based on their priority rankings.¹

	Value-Added Categories			
	Compliance	Cost Saving	Efficiency	Risk Reduction
Priority 1 0	0	0	0	0
Priority 2 6	6	0	6	6
Priority 3 0	0	0	0	0

¹ Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 2		
1.	Establish and document quality control procedures for SARs. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	8/31/2025
2.	Ensure that TPA SARs include contractually obligated components, and work with the TPA to develop WC internal procedures. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	8/31/2025
3.	Obtain a reimbursement from TPA for overbilled claim, ensure that invoices are reconciled to support, and work with TPA to obtain reports to monitor claim type changes and the status of open Indemnity claims. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	8/31/2025
4.	Strengthen controls over the self-imposed penalties by the TPA. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	8/31/2025
5.	Update the APM 4-14. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	8/31/2025
6.	Establish documented metrics to monitor the TPA's performance to contractual terms. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	8/31/2025

C. Background

Internal Audit has completed a performance audit of the City's WC Disability Settlement Process. WC claims are administered by a TPA that is overseen by the WC Division of HRD.

Workers' Compensation

On July 1, 2023, the City of Glendale entered into an agreement with the TPA to provide services that include, but are not limited to, adjusting and managing all of the City's WC claims, bill review, utilization review, and all duties relating thereto.

WC Disability Settlement Process

The initial stage of the WC disability settlement process typically begins once an employee reaches Maximum Medical Improvement (MMI). This prompts the primary treating physician to provide a Whole Person Impairment Rating (WPI %) related to the employee's condition in a comprehensive medical report. The medical reports usually detail the specific injuries sustained, and whether the injury is industrial, non-industrial or a combination of both. If any part of the injury is determined to be caused by non-industrial factors, the medical report provides a breakdown of the injury through apportionment. For example, an injury might be apportioned 80% to industrial causes and 20% to non-industrial causes. After accounting for any applicable apportionment, the physician provides the initial WPI % in a medical report. The employee may see other physicians throughout the WC disability settlement process, who may also provide additional WPI %s.

Typically, both the employee and City have attorney representation in WC claims. The attorneys follow the California (CA) Labor Code and translate the WPI % to a Permanent Disability Rating % (PDR %). Per the CA Labor Code, each PDR % has an associated compensation amount that is paid to employee over a calculated number of weeks.

The simplified² format of a permanent disability rating is as follows:

WPI % - PDR % - Compensation Amount

In addition to permanent disability ratings provided by legal representation, the WC division may also utilize two other rating methods. First, depending on the claim, a Consultative Rating Determination may be requested from the CA State Disability Evaluation Unit (DEU), which determines permanent disability ratings by evaluating medical descriptions of physical and mental impairment.³ Second, WC may also request an independent permanent disability rating from a private rating company. Per WC staff, both the City and TPA staff review all ratings provided on the claim.

The final stage of the WC disability settlement process typically begins when the employee or employee's legal representation and City's attorneys have determined proposed compensation amounts. Upon receipt of this information, the TPA prepares and provides the City with a written settlement authorization request (TPA SAR) before engaging in or agreeing to any settlement. Per the PSA, the TPA SAR should include the following:

- Brief history of the injury
- Rating(s) of all pertinent medical reports
- Amounts paid and reserved on the claim

² A full permanent disability rating includes intermediary steps that involved applying a standard multiplier, and other conversions related to the injured worker's impairment, occupation, and age to the initial WPI %.

³ The determinations are used by WC administrative law judges, injured workers and insurance claims administrators to determine permanent benefits. The DEU prepares three types of ratings: Formal, done at the request of a WC judge; Consultative, done on litigated cases at the request of an attorney or CA State Division of WC information and assistance officer; and Summary, done on non-litigated cases at the request of a claims administrator or injured worker.

- Proposed settlement
- Pros and cons of the proposed settlement, including an estimate of future cost or consequence if the City were to reject the proposed settlement.

The City's WC Division reviews the TPA SAR and prepares a final SAR, which is sent to the City Manager for review and approval.

While the TPA typically initiates the offer to the City, the City has the ultimate authority to approve or deny the SAR. The following are settlement types that were reviewed in this audit:

- Stipulated Award – These types of settlements include a provision for future medical care.
- Compromise Settlement – More than one claim is involved, and all liability is closed in full and final settlement.
- Findings and Award – The parties do not agree, and the WC judge makes a decision.

Factors that affect a WC settlement include severity of the injury, medical expenses, lost wages, and disability rating.

The City is self-insured through a WC fund that pays the medical/legal and other expenses incurred as a result of accepted industrial injuries/illnesses, and WC benefits. The TPA makes payments to injured employees on behalf of the City.

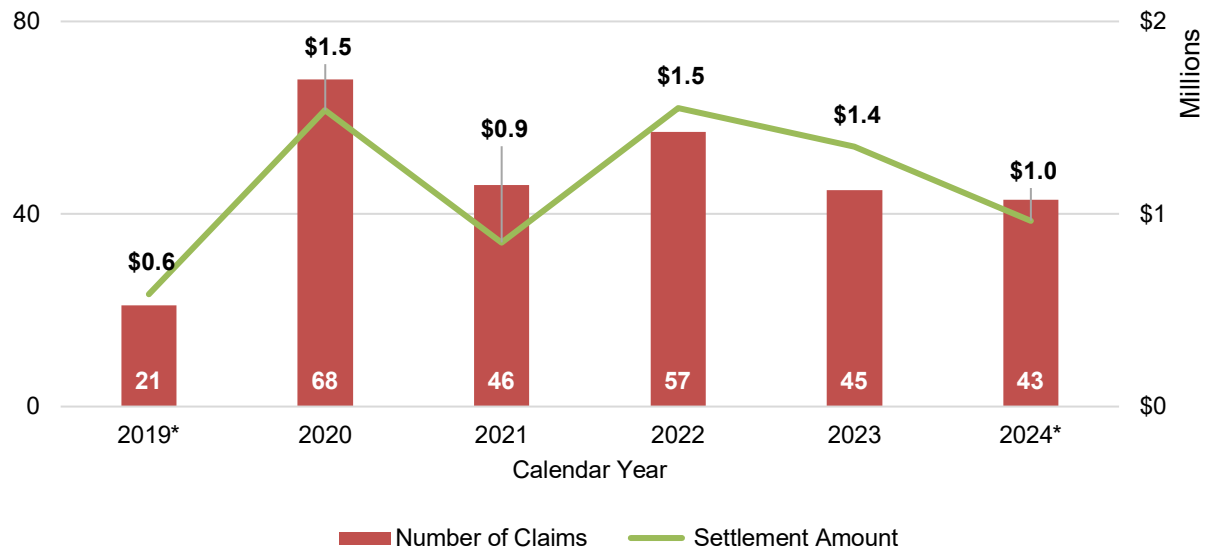
Claim Types

The following claim types were reviewed in this audit:

- Indemnity – Claims filed for work-related injury or illness that typically result in time lost from work. Temporary and Permanent Disability are the two major types of indemnity claims.
- Future Medical – Claims filed for work-related injury or illness that require ongoing lifetime medical treatment.
- Indemnity/Future Medical – Claims filed where injury entitles the employee to ongoing lifetime medical treatment and wage/loss or indemnity benefits.

WC Claim Settlement Trends

Exhibit 1 shows the number of settled claims and total settlement amounts for 280 WC claims.

Exhibit 1: Total Number and Amount of Settled Claims from 10/01/2019 to 09/30/2024

*Note, 2019 covers settled claims from 10/1/2019 and 2024 until 9/30/2024.

D. Objective, Scope and Methodology

The objective of this audit is to determine whether the City has established adequate controls to ensure that the contract provisions are being appropriately followed by the TPA and appropriately administered by the City.

The scope of the audit covers 280⁴ WC settled claims from October 1, 2019, to September 30, 2024.

To accomplish the audit objective, Internal Audit performed the following:

- Interviewed City staff who oversee the administration of the Workers' Compensation program.
- Reviewed detailed WC claims data from iVOS claims management system with injury dates from January 1, 2014 to September 30, 2024.
- Reviewed the PSA scope of work related to the WC disability settlement process.

⁴ The audit scope includes "Dismissal or Take Nothing" claim types, and any settlements with \$0 amounts. Additionally, five companion claims were excluded from the audit scope, as they contain duplicative final settlement amounts.

- Conducted detailed WC disability settlement process testwork on a sample of five claims' SARs and the related three⁵ claims' TPA SARs.
- Performed detailed testwork on a sample of five TPA invoices.
- Reviewed self-imposed late payment penalties by the TPA and City to ensure that the appropriate reimbursements have been made and the reasons for penalties were documented.

As a result of these audit procedures performed, six observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

⁵ Based on this sample, there were three claims where the TPA SAR was applicable and two where it was not applicable. The first was due to the settlement being processed in-house prior to the transition to the TPA, and the second, was a compromise settlement that was processed in-house by the City Attorney's Office.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Settlement Authorization Request (SAR)		
Priority 2	<p>Procedures related to the SAR format and/or content, including the rounding practice for apportionments, have not been documented. Sample review of five SARs from 280 claims showed that:</p> <ol style="list-style-type: none"> Supporting documentation for the key ratings and source reports cited in the SARs are not readily available for review. The final settlement amounts were accurate. However, four SARs contained the following typographical errors: <ul style="list-style-type: none"> One sub-final PDR %/Amount. Three WPI %s. One DEU PDR %. One apportionment %. One SAR quoted a combined sub-final PDR % as a single rating without referencing that it was a combined rating. Four SARs did not include the WPI % used to calculate the PDR %s. One SAR had an undocumented variance between the SAR and the benefit payout. 	<p>It is recommended that HRD document SAR desk procedures to ensure consistent and accurate content. These desk procedures should include, but not be limited to the following:</p> <ol style="list-style-type: none"> Retain readily available copies of supporting documentation for SARs by maintaining a reference guide to source documents. Ensure that all key WPI, PDR and apportionment ratings are cited within the SAR, including combined ratings, and that they agree to the supporting documents. Ensure that any final PDR %s cited on the SAR reference their source WPI %(s) and associated amounts, as applicable. Ensure that deviations between actual benefit payout and final settled amount on SARs are documented, or ensure that the final PDR % is included in the Section 9 of Stipulations with Request for Award document. 	<p>Agreed and will implement by August 31, 2025.</p>

Ref	Observation	Recommendation	Management Response
2.	PSA Terms Compliance		
Priority 2	<p>Based on a review of the three claims' TPA SARs and a review of the TPA's compliance with the PSA terms, the following was noted:</p> <ul style="list-style-type: none"> a. None of the three TPA SARs included the amounts paid to date and reserved on the claim or a detailed pros and cons section. b. The PSA requires the TPA to assist the City in developing internal policies and procedures for managing WC claims. However, no documented policies and procedures for the WC disability settlement process have been established. 	<p>It is recommended that HRD work with the TPA to perform the following:</p> <ul style="list-style-type: none"> a. Ensure that the TPA SARs include the amounts paid to date and reserved on the claim, and a detailed pros and cons section. b. Develop internal WC procedures, specifically ensuring that among other components, the WC disability settlement process is documented and the roles and responsibilities of the TPA and City are delineated. 	<p>Agreed and will implement by August 31, 2025.</p>

Ref	Observation	Recommendation	Management Response
3.	Bill Review		
Priority 2	<p>Internal Audit performed detailed testwork on a sample of the five most recent vendor invoices and available claims data⁶ and noted that:</p> <ul style="list-style-type: none"> a. One invoice included a \$68.06 overbilling. This was the result of one "Not Settled/Future Medical" claim being billed at the \$136.12 "Indemnity" rate instead of the \$68.06 "Future Medical" rate. b. WC staff perform monthly spot checks comparing the invoice support to iVOS for accuracy. However, a comprehensive review is not performed to verify the total number invoiced by claim type or to review the accuracy of the claim types. c. There were 56 open Indemnity claims with injury dates ranging from 2014 to 2020. The TPA does not provide a periodic report listing the age and/or reasons for these long-standing open claims. 	<p>It is recommended that HRD perform the following:</p> <ul style="list-style-type: none"> a. Communicate the overbilled amount to the TPA, obtain a refund, and ensure that invoices are thoroughly reviewed and reconciled to the invoice supporting documentation on a going forward basis. b. Work with the TPA to obtain a monthly customized report that supports the invoice by showing total number of claims by claim type and any claims that had status changes to Indemnity during the service period. c. Work with the TPA to obtain a monthly customized report of long-standing open Indemnity claims, including status updates detailing the age and/or reasons that claims remain open. 	<p>Agreed and will implement by August 31, 2025.</p>

⁶ Reviewed detailed WC claims data from iVOS claims management system with injury dates from January 1, 2014 to September 30, 2024.

Ref	Observation	Recommendation	Management Response
4.	WC Penalties		
Priority 2	<p>Internal Audit reviewed 89 self-imposed penalties paid by the City or TPA from November 1, 2016 to August 22, 2024. 11 were noted to be self-imposed by the TPA, while the rest were self-imposed by the City. Upon inquiry, the following was noted:</p> <ul style="list-style-type: none"> a. Two of 11 TPA self-imposed penalties totaling \$50.21 were paid to injured workers but have not been reimbursed to the City by the TPA. b. The recording of penalties in the iVOS system does not consistently track the reason for the assessment or the responsible party (City or TPA). Documenting the reason in the system is important, because per the CA Department of Industrial Relations, a substantial additional payment may be awarded to an injured employee if no reasonable explanation for the delay is provided. 	<p>It is recommended that HRD perform the following:</p> <ul style="list-style-type: none"> a. Request a \$50.21 reimbursement from the TPA for the self-imposed penalties. Ensure that all TPA self-imposed penalties are periodically reviewed and reimbursed to the City timely. b. In coordination with the TPA, establish a convention for consistently denoting the reasons and responsible party for self-imposed penalties in iVOS. 	<p>Agreed and will implement by August 31, 2025.</p>

Ref	Observation	Recommendation	Management Response
5. Policies and Procedures			
Priority 2	The APM 4-14 needs to be reviewed and updated. A review of this policy identified that Forms H-15 and H-21 are no longer used.	It is recommended that HRD review and update the APM 4-14, as needed, to ensure that it reflects the current WC administration practices.	Agreed and will implement by August 31, 2025.
6. Vendor Performance Monitoring			
Priority 2	No KPIs have been developed or documented to monitor the TPA's compliance with the contractual terms.	<p>It is recommended that HRD perform the following:</p> <ul style="list-style-type: none"> a. Establish and document KPIs such as closing ratios, frequency, delay and denial ratios, examiner caseloads, medical only to indemnity claim ratios, ratio of future medical claims to active indemnity claims, ultimate claims costs, or other pertinent ratios. b. Periodically review these KPIs against established thresholds and discuss performance with TPA when goals are not met. 	Agreed and will implement by August 31, 2025.

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.