

Audit Report

Office of Inspector General

Workers' Compensation Program

July 2006



Office of Inspector General
Montgomery County, Maryland

- This report is available to the public in printed or electronic format.
- To obtain a printed copy, please call or write:

Office of Inspector General
51 Monroe Street, Suite 802
Rockville, Maryland 20850
Telephone 240-777-8240
email: ig@montgomerycountymd.gov

- Please address specific inquiries about this report to Thomas J. Dagley, Inspector General, in writing or by calling 240-777-8240.



July 27, 2006

Hon. George Leventhal, President, County Council
Hon. Douglas M. Duncan, County Executive

Gentlemen:

We audited the County's Workers' Compensation Program and related accident, injury, and illness activities. This audit work was included in our Four-Year Work Plan issued in August 2005. The audit scope covered all County government departments/offices and the two other largest Self-Insurance Program (SIP) cost participants – Montgomery County Public Schools and the Maryland-National Capital Park and Planning Commission. Together, County government and these participants account for approximately 94 percent of total workers' compensation costs.

The current balance sheet for the SIP shows a liability of approximately \$86 million for future claims payable. The balance sheet also shows the SIP has sufficient assets to fund these liabilities. The fiscal year 2007 projected expenses are approximately \$39 million.

Our audit disclosed several strengths in the Department of Finance's approach to meeting Program objectives. We found the Division of Risk Management uses fact-based systematic evaluation processes with several initiatives underway to improve performance outcomes.

Our report includes six findings and related recommendations we believe will help sustain or improve results Countywide. Our findings and recommendations relate to: full reporting of compensation to injured workers; accuracy of injured workers' payments; individual budget accountability for workers' compensation costs; measurable safety objectives for supervisors; injured worker return-to-work programs; and fraud prevention and detection.

We wish to acknowledge the cooperation extended to us by Department of Finance managers and staff.

Respectfully submitted,

Thomas J. Dagley
Inspector General

**Office of Inspector General
Audit Report
Workers' Compensation Program
July 2006**

Table of Contents

	<u>Page</u>
Background Information	1
Conclusions	3
Findings and Recommendations	4
Finding 1 – Full Reporting of Compensation to Injured Workers	4
Finding 2 – Accuracy of Injured Workers' Payments.....	6
Finding 3 – Individual Budget Accountability for Costs	8
Finding 4 – Measurable Safety Objectives for Supervisors.....	9
Finding 5 – Employee Return-to-Work Programs	10
Finding 6 – Fraud Prevention and Detection	12
Audit Scope, Objectives, and Methodology.....	14
Chief Administrative Officer's Response	Appendix

Background Information

Montgomery County Code §20-37 established the County's comprehensive insurance and Self-Insurance Program (SIP) in 1978. The Program is primarily County-funded through participant contributions. In addition to all County government departments/offices, participants include:

- Montgomery County Public Schools
- Montgomery College
- Maryland-National Capital Park and Planning Commission
- Montgomery County Revenue Authority
- Housing Opportunities Commission of Montgomery County
- City of Rockville
- City of Gaithersburg
- City of Takoma Park
- Town of Somerset
- Village of Drummond
- Village of Friendship Heights
- Bethesda Urban Partnership
- Independent Fire Corporations
- Rockville Housing Enterprise
- Village of Martin's Additions

The County government Division of Risk Management, Department of Finance, manages the SIP, providing risk management^{1/} programs and services to all participants. Programs and services include workers' compensation, automobile and general liability, claims administration, training and consulting in occupational safety and health, and consulting services for insurance and risk matters.

Program contributions are based on actuarial analysis of outstanding and projected future claims filed against SIP participants. The program is designed to provide accurate and timely insurance and risk management advice to participating members and reduce exposure to risk by: comparing the cost of commercially-available coverage to evaluate the best method of funding exposure to loss; transferring contractual risk under indemnification/hold harmless agreements; avoiding risk; operating proactive safety programs; and purchasing commercial insurance.

The Division of Risk Management facilitates the payment of benefits to employees who qualify for coverage in compliance with the Maryland Workers' Compensation Act (Title 9 of the Labor and Employment Article of the Maryland Annotated Code). Program goals include completing prompt and accurate investigation and the timely provision of medical and wage replacement benefits.

^{1/} Risk management is the process of identifying exposures that could lead to financial loss and formulating and implementing strategies to minimize or eliminate their adverse effects on an organization's mission.

The Department of Finance informed us at the outset of the audit that the following initiatives have been implemented to control or reduce workers' compensation costs:

- Medical management through nurse case management
- A Preferred Provider Organization that discounts medical services below the Maryland Fee Guide
- A prescription plan that provides discounts below the average wholesale price for generic and name brands
- An alternative placement program established in cooperation with the County government Office of Human Resources to require employees to return to work as soon as possible after a disabling injury
- Hospital and physical therapy pre-certification programs

Claims administration services are provided through a contract with a Third-Party Administrator (TPA). For workers' compensation claims, the administrator must comply with all of the responsibilities of an employer as defined by the Workers' Compensation Act. The Office of the County Attorney provides legal support for all claims, with some legal support provided by outside counsel at the direction of the County Attorney.

The following tables present selected financial and performance data for the SIP.

Table 1 Montgomery County Self-Insurance Program

Income Statement	FY 2006 (projected)	FY 2007 (approved)
Revenues		
Contributions	\$48,086,690	\$32,280,470
Recovered Losses	650,000	650,000
Investment Income	3,641,980	5,200,000
Misc. Income	300,000	100,000
Total	\$52,678,670	\$38,230,470
Expenses		
Claims Expense	\$19,550,000	\$20,591,000
Reserve/Incurred But Not Reported Adjustment	6,676,000	8,125,000
Other Insurance Costs	8,516,400	8,415,530
County Attorney	1,700,660	1,907,100
Gen. & Admin.	376,650	412,570
Total	\$36,819,710	\$39,451,200
Net Income (Loss)	\$15,858,960	\$(1,220,730)

Source: Division of Risk Management, 3/2/2006

Table 2 Total Workers' Compensation Expenses

SIP Participant	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007 (Approved)
County Government ^{2/}	\$7,977,000	\$9,667,000	\$11,468,000	\$15,063,500	\$15,744,000
MCPS	5,671,000	5,712,000	6,262,000	7,158,000	6,403,000
MNCPPC	2,042,000	2,029,000	2,072,000	2,311,000	2,216,000

Table 3 Workers' Compensation Cost per \$100 of Payroll

SIP Participant	FY 2003	FY 2004	FY 2005	FY 2006
County Government ^{2/}	\$1.16	\$1.32	\$1.50	\$1.93
MCPS	.55	.55	.56	.61
MNCPPC	1.61	1.62	1.54	1.70

Table 4 Lost Workday Incidents

SIP Participant	FY 2003	FY 2004	FY 2005	FY 2006
County Government ^{2/}	283	310	275	360
MCPS	251	243	235	288
MNCPPC	105	97	83	97

Source: Division of Risk Management

Conclusions

We found several strengths in the Department of Finance's approach to managing the Workers' Compensation Program and related SIP activities. These strengths include, for example, the five initiatives identified in the Background Information. The Division of Risk Management has established fact-based systematic evaluation processes with several improvement projects in progress.

Our report includes six findings and related recommendations we believe will help sustain or improve results Countywide or for specific participants who rely on County funds. Our findings and recommendations relate to: full reporting of compensation to injured workers; accuracy of injured workers' payments; individual budget accountability for costs; measurable safety objectives for supervisors; employee return-to-work programs; and fraud prevention and detection.

^{2/}These figures do not include career Fire and Rescue Service employees. See our April 2006 Evaluation Report.

Findings and Recommendations

Full Reporting of Compensation to Injured Workers

Finding 1

All compensation paid for lost workdays due to work-related accidents and illnesses, including supplemental payments above the State-mandated level, should be recorded and presented as the cost of compensating injured County government workers.

Analysis

The State of Maryland requires injured workers who miss work due to work-related accidents and illnesses to receive two-thirds of their average weekly wage, up to a maximum established by the State each year. For accidents and illnesses that occur in 2006, the weekly maximum is \$801. The average weekly wage is: 1) the average wage earned by the employee during the 13 weeks prior to the accident; or 2) the average wage for those weeks the employee actually worked during the 13-week period.

In addition to State requirements, virtually all employees of Montgomery County Self-Insurance Fund (SIF) participants receive, through collective bargaining and administrative regulations, a supplemental amount that brings the total compensation to an amount equal to their full average weekly wage. For many participants of the SIF, supplemental payments are provided only when using in-network medical care providers and are limited in most cases to a certain period of time.

While County government describes the supplement as disability leave, other SIF participants describe it as workers' compensation leave. Regardless of title, payments to injured County government workers that exceed the State-mandated amount are not recorded or presented by the Department of Finance or Office of Management and Budget (OMB) as costs related to the Workers' Compensation Program. While we agree there are valid reasons not to report supplemental payments as direct workers' compensation costs (when, for example, comparing County performance outcomes to industry standards), we believe supplements are part of the cost of work-related injuries and illnesses and should be presented as such on appropriate Department of Finance and OMB reports, including those used to evaluate occupational safety and health program performance and make budget decisions.

According to information provided by the Division of Risk Management, the following table shows payments made as compensation for lost workdays due to work-related accidents and illnesses. Note that these figures are for County government, including career Fire and Rescue Service employees.

Compensation for Lost Workdays – County Government Only

Fiscal Year	Indemnity Payments	Supplemental Payments	Total Compensation
2005	\$1,376,000	\$1,525,000	\$2,901,000
2006	\$1,713,000	\$1,534,000	\$3,247,000

For these years, only the Indemnity Payments were included by the Department of Finance in performance measure results or budget documents related to the Workers’ Compensation Program. The supplemental payments were identified in OMB reports as a component of salaries and wages under personnel costs.

In our opinion, disclosing these supplemental payments as part of the performance results and total compensation costs for work-related accidents and illnesses will help ensure the Executive, Council, and County taxpayers are provided with accurate and complete information regarding safety and health related programs. In addition, although our detailed analysis was limited to County government, we believe the value of disclosing supplemental payments applies to all County-funded SIF participants.

Recommendation

We recommend the Directors, Department of Finance and Office of Management and Budget, in consultation with the Chief Administrative Officer, quantify the amount of compensation above the State-mandated level provided to County government employees for work-related accidents and illnesses, and include this compensation in reports used to analyze costs, present budget recommendations, and report program performance results. In this regard, supplemental payments could be reported as a separate line item rather than combining them with State-mandated workers’ compensation costs.

In addition, we recommend the Division of Risk Management request similar compensation data from the other County-funded SIF participants and include that data in the annual Risk Management report to the County Council.

Accuracy of Injured Workers' Payments

Finding 2

Indemnity payments to injured workers should be based on a 13-week wage calculation as required by State Workers' Compensation Commission regulations. Currently, many payments are calculated using a 14-week average while others are calculated using an artificial 13th week that averages weeks 13 and 14 wages. Additional quality control procedures and oversight are needed to ensure accurate calculations of average weekly wages.

Analysis

As described in the preceding finding, State Workers' Compensation Commission (WCC) regulations require that workers' compensation payments to injured workers be based, subject to annual maximums, on the average of the injured worker's wages for the 13 weeks prior to the date of the accident. Workers' compensation payments are mandated to be equivalent to two-thirds of the average weekly wage (AWW).

We found the County's Third Party Administrator (TPA) was not always provided sufficiently detailed information to calculate indemnity payments for injured workers in accordance with WCC requirements. Although participants of the Self-Insurance Fund (SIF) generally provided the TPA 14 weeks of payroll data, details were not always sufficient to allow the TPA to calculate an accurate 13-week average. Specifically, we noted:

- Two incorrect methods of calculating the AWW were identified in our test of 29 indemnity payments to injured workers. For 20 payments, a 14-week average was used. This is attributable to SIF participants using a two-week pay cycle and seven full pay periods being an expeditious way of calculating the AWW. This method can be incorrect for any employee with wage variance during the 14 week period. For six other tests, wages for weeks 13 and 14 were divided in half and added to information for the other 12 weeks to calculate the AWW. This method can be incorrect when an employee's wages for weeks 13 and 14 are not the same. Only one of the 29 tests was calculated using a true 13-week pay analysis.

Our test also revealed three errors that were not specifically caused by the calculation methods described above:

- One test involved a Housing Opportunities Commission (HOC) employee. During the audit, we initially identified what appeared to be an underpayment, as we calculated the AWW as \$1,154.89, which would result in a weekly payment capped at the then annual maximum of \$768. However, the employee was being paid only \$631 per week. During the audit, the Division of Risk Management determined that the actual date of injury was May 5, 2000, not November 23, 2004, as originally reported. When payroll information based on the correct injury date was used, it was determined that an overpayment of \$1,397.51 had occurred. The Division advised us they will ensure collection of the overpayment by off-setting a permanent partial disability payment to the claimant.

- A second error identified during our test concerned an MCPS employee. We found this employee's AWW calculation incorrectly included half of weeks 1 and 2 and all of weeks 3-14. Discussion with the Division of Risk Management revealed the individual is a ten-month employee, and a different calculation method is appropriate when an incident involving this category of employee occurs early in the school year. When further analyzed by the Division of Risk Management, an underpayment of \$1,041.87 was identified. The Division advised us an additional payment will be made.
- Another error in our test of 29 payments concerned a part-time temporary employee for the City of Rockville. Although the AWW was calculated to be \$15.53, the weekly worker's compensation payment was \$30.46. This case was reviewed by the Division of Risk Management and an overpayment of \$44.11 was identified due to the incorrect calculation of the AWW.

Based on our testing, we concluded that no injured workers received more than the State-mandated maximums for workers' compensation, without considering any supplemental payments which are not regulated by the WCC. However, we also concluded the methods used to calculate the AWW of injured workers caused or contributed to payment errors and did not provide assurance that WCC requirements were met. It should be noted that our 29 test payments included AWW calculations by both the former and current TPA.

There is a need for the Division of Risk Management to ensure effective quality control processes are in place to ensure accurate payments are made to injured workers and compliance with WCC requirements.

Recommendation

We recommend the Division of Risk Management utilize a 13-week period for calculation of the average weekly wage to comply with WCC requirements and ensure accurate payments to injured workers. Alternatively, we recommend the Division of Risk Management pursue with the WCC the authority to use a 14-week average for payment calculations.

In addition, we recommend the Division of Risk Management implement appropriate quality control processes, including periodic sampling of TPA calculations, in order to assure injured workers receive proper compensation.

Individual Budget Accountability for Costs

Finding 3

Accountability for managing the costs of work-related accidents and illnesses in County government can be enhanced by assigning workers' compensation costs and related payments to individual County department/office budgets.

Analysis

During the audit, it was determined that workers' compensation costs and related payments are not included in the individual budgets for tax-funded departments/offices within County government. Instead, these costs are reported in the County budget as a single Non-Departmental Account (NDA) item. According to budget documents published by the Office of Management and Budget, "non-departmental accounts contain expenses essential to the operation of the County government which either do not fall within the functional assignment of any department or agency or provide for expenditures related to more than one department or agency." In the County Executive's Recommended FY 2007 Operating Budget, there is \$8.9 million in an NDA for the estimated risk management costs of multiple departments/offices.

Our analysis concluded that risk management costs including workers' compensation costs are not appropriate for a NDA because work-related accidents and illnesses are a management responsibility as evidenced, in part, by Executive Order 35-95, "Establishment of a Comprehensive Safety and Health Program" (see Finding 4).

The Department of Finance advised us the \$8.9 million risk management cost in the Fiscal Year 2007 NDA is for all tax-funded departments/offices. Some of the largest tax-funded departments/offices are Correction and Rehabilitation, Police, Sheriff, and Public Works and Transportation.

In addition to the risk management costs not being included in individual department/office budgets, we found the costs are generally based on actuarial analysis of previous years' data, not from actual costs for the current budget year. In this regard, tax-funded department/office leaders have minimal budgetary incentive to focus on actual costs of employee accidents and illnesses because the costs do not directly impact program funding.

Although we found all managers interviewed during our field visits genuinely concerned for employee safety and health, we believe the placement of work-related accident and illness costs for multiple departments/office in a single NDA is not in the best interest of all SIF participants. There are opportunities to improve the County's financial performance by assigning costs to the budgets of individual department/office directors and providing incentives to lower costs through accident and illness prevention initiatives.

Recommendation

We recommend the Director, Office of Management and Budget, in consultation with the Director, Department of Finance and the Chief Administrative Officer, eliminate the Non-Departmental Account for Risk Management costs and assign these expenses to the budgets of County department/office directors to enhance management accountability for accident and illness prevention initiatives.

Measurable Safety Objectives for Supervisors

Finding 4

Accountability for reducing the frequency, severity, and costs of work-related accidents and illnesses in County government can be enhanced by assuring that all supervisors have, as required by County policy, a measurable performance objective related to occupational safety and health as part of the Annual Performance Evaluation.

Analysis

Executive Order 35-95, "Establishment of a Comprehensive Safety and Health Program" was issued by the County Executive on March 17, 1995 and in effect throughout the audit period. It assigns responsibility to maintain a safe work environment to each department director and oversight and coordination responsibility for the program to the Division of Risk Management. The Order includes the following:

"Each County Department, or designated unit of County Government shall develop written guidelines, with the assistance of the Safety Section, including policies, procedures, and/or necessary rules and regulations covering specific programs that are considered essential, to standardize accident prevention and loss control programs. A measurable objective as it relates to occupational safety and health shall be developed and made a part of each supervisor's Annual Performance Evaluation. Such guidelines, policies, procedures, rules and regulations will (be) formulated in compliance with appropriate bargaining agreements."

During the audit, we interviewed several department directors or managers within County government whose supervisors should have a measurable safety and health objective as part of the Annual Performance Evaluation process. While each expressed a genuine concern about providing a safe working environment and reducing the number of work-related accidents and illnesses, most stated the supervisors in their work unit did not have the required measurable objective in place.

We believe compliance with Executive Order 35-95 will help ensure an appropriate focus on County financial and other performance measures regarding occupational safety and health related programs, including workers' compensation.

Recommendation

We recommend the Division of Risk Management, in consultation with the Director, Department of Finance and the Chief Administrative Officer, reinforce Executive Order 35-95 by assuring all supervisory employees in County government have, as required, a measurable performance objective related to occupational safety and health as part of the Annual Performance Evaluation. One method of assuring the presence of measurable performance objectives is to add the item to the Self-Inspection Checklist submitted annually by departments to the Division.

Employee Return-to-Work Programs

Finding 5

The establishment of a formal return-to-work or light duty program for employees receiving workers' compensation payments within Montgomery County Public Schools (MCPS) will help accommodate additional employees with restrictions, reduce Self-Insurance Fund costs, and reduce supplemental leave payments provided to injured employees.

Analysis

Currently, MCPS does not have a formal policy or procedure regarding injured employees returning to work before they meet all physical requirements of their current position, even though many employees with restrictions can contribute to the MCPS mission through a light or limited-duty assignment. We were advised by MCPS managers that individual unit managers currently decide whether to accommodate employees with medical restrictions and some do not permit employees to return to work until they have been cleared medically to assume all responsibilities of their current position.

Based on management discussions and an analysis of selected injured worker cases, we believe there is legitimate, meaningful work that can be accomplished by many injured workers within their medical restrictions when the employee has the skills needed to perform such work. When these conditions are identified in the employee's permanent work area or in other MCPS units, Self-Insurance Fund (SIF) expenses and supplemental payments can be eliminated or reduced by having the injured worker return to work in a limited-duty status. In this regard, the Division of Risk Management advised us all other SIF participant organizations have a formal return-to-work or light duty program in place designed to accommodate employees with medical restrictions.

In order to evaluate the impact of MCPS not having a formal return-to-work or light duty program, we requested the Division of Risk Management and their Third Party Administrator (TPA) to provide a listing of all MCPS employees currently receiving indemnity payments, and to include whether and when the individual had been medically cleared to return to work with restrictions. We found as of June 7, 2006, there were 45 MCPS employees receiving indemnity payments. According to the Division and the TPA, twelve of the 45 had been cleared to return to work with restrictions, but only three had been permitted to return to work. One of these three did not return for approximately seven months after being cleared.

We examined the TPA electronic file notes for each of these cases. We paid particular attention to the nine who had not returned to work, evaluating information that documented medical clearance to return to work with restrictions and any discussions between MCPS and the TPA to accommodate workers. In six of the nine cases, the electronic notes clearly show MCPS declined to permit the employees to return to work

with medical restrictions. For the other three who had also not returned to work, the case files were inconclusive as to why the employee had not returned.

We calculated the number of weeks from the date each of the nine employees was cleared for restricted work and multiplied the number of weeks by the weekly workers' compensation payment. For the employee whose return was seven months after clearance, we also multiplied the weekly compensation payment from the date of clearance to the actual return-to-work date. These calculations identified a total of \$182,042 paid as workers' compensation to these employees who were medically cleared to return to work with restrictions. This figure does not include any additional compensation, such as supplemental payments made to the employees. We noted MCPS provides supplemental payments only when an employee seeks medical treatment from a list of approved preferred providers.

Recommendation

We recommend the Chief Administrative Officer, in consultation with the County Council, formally request MCPS to implement a return-to-work or light duty program to help accommodate additional employees with medical restrictions and reduce County-funded SIF costs for workers' compensation and supplemental payments.

Fraud Prevention and Detection

Finding 6

In addition to implementing an independent fraud hotline as an anti-fraud tool, there are opportunities for the County to increase the effectiveness of its fraud detection process and the checklist used by the Third-Party Administrator to prevent or limit fraud losses in workers' compensation claims.

Background

In Montgomery County as well as nationally, leaders recognize that the vast majority of workers' compensation claims are truthful. At the same time, however, insurance administrators estimate that fraud accounts for up to ten percent of the cost of workers' compensation premiums. According to participants of the Association of Certified Fraud Examiners (ACFE), claimant fraud can appear in many forms. Some workers exaggerate the extent of injury to prolong time away from work, while others claim their injuries occurred at work when, in fact, they happened off premises and are unrelated to work. In other cases, medical providers have been prosecuted for conspiring with claimants to submit false claims.

In our Four-Year Work Plan (August 2005), the Office of Inspector General makes a commitment to investigate potentially fraudulent workers' compensation claims to help the Department of Finance deter and detect abusive practices and manage program costs. In this regard, we will implement an independent fraud hotline in fiscal year 2007 to improve the County's capabilities to uncover fraud, waste, and abuse in a timely manner. The ACFE reported in 2006 that organizations with anonymous fraud hotlines experience significantly lower median fraud losses per scheme than those without such hotlines, primarily because hotlines result in earlier detection.

The independent County hotline will be operated by a third-party partner who provides a toll-free number for employees, suppliers, and residents to report concerns. We anticipate caller information will be referred to the Office of Inspector General on a daily basis for evaluation and appropriate follow up.

Analysis

Currently, fraud prevention and detection efforts within the County Workers' Compensation Program rely heavily on TPA staff who use a checklist of 20 fraud indicators to evaluate injured worker claims. We found that although claim reviewers are expected to answer "yes" or "no" to each indicator when a new claim is processed, sufficient information is often not available to the reviewers to properly complete the checklist and make a fully informed decision regarding possible fraud. During our field work, we found little evidence that TPA staff were contacting the claimant's immediate supervisor, a contact which can lead to key information to evaluate several indicators on the checklist. The immediate supervisor is the person normally responsible for reporting the accident, and may have relevant information not otherwise available to TPA staff.

When we discussed our supervisor contact concerns with the Division of Risk Management, we were advised the County's TPA contract requires contact with supervisors on all claims involving medical care or lost work time. This contact is part of the Division's "three point investigation" to determine the compensability of the claim, verify how the injury took place, and complete a medical assessment of the injury. In response to this discussion and as a follow-up to our field work, we examined six of 30 claimant files previously reviewed for payment accuracy to determine the extent of supervisor contact regarding fraud potential. For all six cases, although we found evidence of TPA staff contact with the employer's representative, there was evidence in only one of the claim files of a fraud discussion with the injured worker's supervisor. For the other five cases, the contact was with various officials for the purpose of verifying accident details, requesting disability leave forms, or discussing return-to-work issues.

In addition, our assessment of the fraud checklist identified opportunities to strengthen the County's anti-fraud procedures by adding other specific indicators that participants of the ACFE at the federal, state, and county levels have found to be effective investigative tools.

Recommendation

We recommend that the Division of Risk Management, in consultation with the Director, Department of Finance and the Chief Administrative Officer, work with the Third Party Administrator to ensure that a discussion with the immediate supervisor of injured workers is completed and documented in the claim file to ensure claims are properly evaluated for potential fraud. We also recommend that the Division consult with the Inspector General to place additional specific indicators on the checklist to strengthen the County's anti-fraud procedures.

Audit Scope, Objectives, and Methodology

Scope

Under the authority of Montgomery County Code §2-151, we conducted an audit of the County's Workers' Compensation Program and related accident, injury, and illness activity. This work was included in our Four-Year Work Plan (Table 1 on page 6) issued in August 2005. The scope of the audit covered fiscal years 2005 and 2006 for all County departments/offices and the two other largest cost participants – Montgomery County Public Schools (MCPS) and the Maryland-National Capital Park and Planning Commission (MNCPPC). Together, these participants account for approximately 94 percent of total workers' compensation costs.

We performed the audit work in accordance with generally accepted government auditing standards.

Objectives

The objectives of our audit work were to: (1) determine whether program goals and objectives are adequate and being achieved in a cost-effective manner; (2) determine the reliability of selected performance outcome results; (3) evaluate compliance with selected laws, regulations, and established policies and procedures; (4) evaluate the County's capability of identifying suspect or fraudulent claims and the response when such a claim is identified; and (5) determine the effectiveness of the Division of Risk Management and County leaders regarding the prevention and reduction of employee accidents and illnesses.

Methodology

To accomplish our objectives, we benchmarked with federal, state, and other local government agencies during the planning phase of the audit. We also met with the Director, Department of Finance and the Chief and staff, Division of Risk Management during the planning phase and throughout our field work. In addition, we met with management and program staff at MCPS and MNCPPC, and we spoke with representatives of the State Workers' Compensation Commission. We identified and reviewed key program policies, regulations, and applicable laws. Our methodology included inspection of documents provided to us by the Division of Risk Management, MCPS, and MNCPPC.

We also met with management and claims staff of the Third Party Administrator (TPA) and tested workers' compensation and medical payments authorized by the TPA. We reviewed selected files to identify potentially fraudulent claims and evaluated any subsequent action on those claims.

Further, we formally evaluated the reliability of results for two workers' compensation performance outcome measures for the Occupational Safety and Health Program, Department of Finance, published in the County Executive's Recommended FY07 Operating Budget and Public Services Program (see our April 2006 Evaluation Report –

Office of Management and Budget, Montgomery Measures Up!, Fiscal Year 2005 Performance Measure Results).

During our audit planning and field work, the Workers' Compensation Program and activities related to accidents, injuries, and illnesses were examined as two separate audits. However, the audits' results have been combined into this report, which we discussed as an option with management at the audit entrance conference.

Our field work was conducted during the period from November 2005 to June 2006. Our preliminary audit findings were presented in writing to the Chief Administrative Officer, which resulted in a written response to each item and an audit exit conference on June 27, 2006. Our audit finding regarding employee return-to-work programs was provided to MCPS management by the Division of Risk Management and separately by the Office of Inspector General.

All data provided in this report for background information or informational purposes were deemed reasonable, but not independently verified.

Management Response

The Chief Administrative Officer's response dated July 21, 2006 to our findings and recommendations is included as an appendix. In accordance with government auditing standards, we will advise the Chief Administrative Officer regarding the results of our review of the response.

Audit Manager

**Jon D. Easley, CPA
Deputy Inspector General**

**Office of Inspector General
Montgomery County, Maryland
51 Monroe Street, Suite 802
Rockville, Maryland 20850
240-777-8240
ig@montgomerycountymd.gov**

Website: <http://www.montgomerycountymd.gov/ig>