COUNTY OF PLACER

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AUDITOR-CONTROLLER

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June 20, 2012

Ms. Maryellen Peters
Deputy County Executive Officer
Placer County Risk Management
175 Fulweiler Avenue
Auburn, CA 95603

Re: Workers' Compensation Program Third Party Administrator Review

Dear Ms. Peters:

The Internal Audit Division of the Placer County Auditor-Controller's Office performed a review of processes and payments within the County's Workers' Compensation program for the period January 2010 through December 2011. York Risk Management Services (Administrator) was the Third Party Administrator during the review period; as of January 1, 2012 the County entered into a contract with Intercare Insurance Services (new Administrator) to administer its Workers' Compensation program.

The objectives of our review were to evaluate various transaction types outsourced to the Administrator's subsidiaries and other vendors to ensure detailed supporting documentation for authorized payments have been maintained; adequate internal controls were in place to ensure proper medical procedure authorization and payment authorization; all billings were in accordance with the contract; and complete records have been properly retained by the Administrator. Areas reviewed included:

- Permanent disability advances
- Express Scripts pharmaceutical transactions
- Bill Review
- Utilization Review
- Review of payments for duplicates

For the two year period noted above, there were nearly 10,000 payment transactions processed by the Administrator. We segregated the types of transactions as listed above and performed various audit procedures. Our findings and recommendations are noted below.

Permanent Disability Advances

During the audit period, there were 42 cases in which claimants received permanent disability advances. We calculated permanent disability advances compared to settlement awards for 15 cases and noted overpayments in four claims totaling $7,869.07.

We recommend Risk Management pursue reimbursement from the Administrator for the total amount of these overpayments. In addition, we recommend Risk Management require the new Administrator provide quarterly reports and reconciliations of permanent disability payments.

Risk Management Division Response: Labor Code Section 4650 (b) requires the first payment of permanent disability to be paid within 14 days of the last payment of temporary disability, regardless of whether the extent of permanent disability can be determined by this date. Payments are to continue until the employer's reasonable estimate of permanent disability has been paid.

In view of this requirement, the YORK examiner is responsible for determining if permanent disability will exist based on standards of AMA guides. The guides identify impairments with the treating physicians reporting on findings at time a person reaches maximum medical improvement. This can occur months or years after final payment of temporary disability. Although examiners try to advance permanent disability conservatively, overpayments can result due to doctors using a different impairment rating then would be anticipated, apportionment is higher than anticipated or no impairment is found.

We will be requesting reimbursement of permanent disability overpayments. In reviewing individual claim files, we agree with recommendations and will have Intercare, (new claim administrator) include quarterly reports reflecting payment of permanent disability benefits. In addition we have asked Intercare to provide recommendation of payment of permanent disability prior to issuing checks.

Express Scripts Pharmaceutical Payments

Express Scripts is a nationwide pharmacy benefit management company which processes pharmaceutical claims for its members at network pharmacies. According to California Code of Regulations, Division of Workers' Compensation Administrative Rules "the maximum reasonable fee for pharmaceuticals and pharmacy services rendered after January 1, 2004 is 100% of the reimbursement prescribed in the relevant Medi-Cal payment system, including Medi-Cal professional fee for dispensing." State of California, Department of Industrial Relations further outlined that payments should equal to the lesser of U&C (usual & customary price) or the Medi-Cal pharmacy fee rates as published in Workers' Compensation pharmaceutical fee schedule.

- During our testing, we selected 10 transactions out of total of 784 pharmaceutical payments and noted 5 instances where payments for pharmaceutical products were

higher than either U&C (usual & customary price) or DIR (Department of Industrial Relations, State of California) pharmacy fee schedule.

- During our testing, we noted one instance where the payment for medication (per Express Scripts report) was not reflected in the Administrator's claim files.
- In addition, we noted Express Scripts reports lack price breakdown to reflect medication cost, professional dispensing fees, or fees charged by the processor, which makes it impossible to verify product pricing.

We recommend Risk Management request the new Administrator require detailed reports of all Express Scripts payments in order to have an audit trail for pricing and claimant verification.

Risk Management Division Response: In review of Express Scripts findings, the charges on claim number 6125-99-02 were for Ketorofen, which is a non-formulary drug and not subject to fee schedule charges. Fluctuation in payments of medication is driven by the National Drug Code (NDC) and manufacturers' pricing which can change frequently. Beginning in January 2006 the DWC provided weekly updates on the fee schedule based on Medi-Cal rates, however due to unavailable data there has been no recent update. We believe the additional costs may be related to the unavailability of weekly updates. Intercare, our current TPA through Express Scripts, is providing monthly reports reflecting quantity, billed amount, fee schedule, Express Script cost and savings.

Utilization Review

During the audit period, there were 366 payments processed by the Administrator for Utilization Reviews. We reviewed 15 payments and noted three instances in which no documentation was retained in the file to evidence and support utilization reviews, or their levels of authority. Further, one of these three instances appeared to only require a level I (adjuster's approval) procedure; however, the approval was escalated to level III (physician).

Risk Management Division Response: We agree with the findings and will require the administrator to keep all documentation in the file as back up for all requests for utilization review.

Duplicate Payments/Missing Case Files

During our review, we noted 1,200 pairs of transactions that could potentially have been duplicate payments. Of these 1,200 pairs of transactions, we selected a sample of 56 transactions (28 pairs) for detailed review. We reviewed clients' case files as well as electronic records maintained by the Administrator; however, due to lack of documentation in the Administrator's electronic file and inability to locate three clients' case files, we were unable to conclude if two payments had been duplicated.

As of January 1, 2012, Intercare Insurance Services established electronic recordkeeping for all documentation utilizing digital scanning of all case documentation, which, in our opinion, lowered risk in the two above mentioned areas.

The Division's responses to the recommendations identified in our review are described above. We did not audit the Division's responses and, accordingly, we express no opinion on them.

We appreciate Risk Management and Intercare Insurance Services staff's courtesy and cooperation throughout the course of this review.

Respectfully,

Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: David Boesch, County Executive Officer
Cindy Martin, Risk Management Administrator
Andrew Sisk, Placer County Auditor-Controller
Placer County Audit Committee