

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
THIRD PARTY ADMINISTRATOR'S
SUBCONTRACTOR COSTS FOR THE
DISTRICT OF COLUMBIA EMPLOYEE'S
DISABILITY COMPENSATION PROGRAM**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General



Inspector General

March 9, 2007

Kelly Valentine
Interim Chief Risk Officer
Office of Risk Management
One Judiciary Square
441 4th Street N.W., Suite 800S
Washington, DC 20001

Dear Ms. Valentine:

Enclosed is the final audit report, summarizing the results of the Office of the Inspector General's (OIG) audit of the Third Party Administrator's Subcontractor Costs for the District of Columbia Employee's Disability Compensation Program (OIG No. 06-1-07BG (a)). This audit was part of our continuous coverage of the District of Columbia Employee's Disability Compensation Program.

On September 28, 2006, we issued a Management Alert Report (MAR) (No. 06-A-11) informing the Office of Risk Management (ORM) of the results of our review of the third party administrator's subcontractor costs charged to the District. We directed three recommendations to ORM for necessary action to correct the described deficiencies.

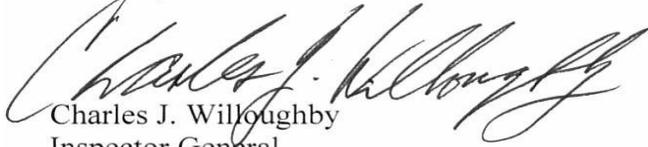
We received a response to the MAR from ORM on December 12, 2006, and consider ORM's actions to be nonresponsive to our recommendations. ORM did not concur with Recommendations 1 and 2. ORM's response to Recommendation 3 does not contain enough information to determine whether corrective actions meet the intent of the recommendation.

We re-examined our facts and conclusions and determined that our assessment of the third party administrator's subcontractor costs and recoverable dollars are valid. Accordingly, we ask that ORM reconsider its position on Recommendations 1 and 2 and provide additional information regarding corrective action for Recommendation 3 within 60 days of the date of this report. The full text of ORM's response is included at Exhibit C.

Kelly Valentine
March 9, 2007
Final Report – OIG No. 06-1-07BG(a)
Page 2 of 4

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

CJW/ev

Enclosure

cc: See Distribution List

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**AUDIT OF THE THIRD PARTY ADMINISTRATOR'S
SUBCONTRACTOR COSTS FOR THE
DISTRICT OF COLUMBIA EMPLOYEE'S
DISABILITY COMPENSATION PROGRAM**

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EXECUTIVE SUMMARY

OVERVIEW

The District of Columbia Office of the Inspector General (OIG) has completed an audit of the Third Party Administrator's (TPA) subcontractor costs for the District of Columbia Employee's Disability Compensation Program (Disability Comp Program). The audit focused on a review of subcontractor costs as related to the contractual agreement between the District and the TPA. This audit was initiated after an analysis of subcontractor charges discovered questionable program costs during our initial audit of the Disability Comp Program.

The overall audit objective was to determine whether rules published by the District concerning the termination, suspension, and reduction of disability compensation benefits for District employees were followed. The specific objective for this audit was to determine whether the TPA complied with the terms of the TPA contract.

CONCLUSIONS

An analysis of subcontractor charges reported and paid for by the Office of Risk Management (ORM) revealed that the charges were unallowable. The subcontractor charges were for services covered under the \$9.4 million contract between ORM and the TPA and therefore, unallowable. Additionally, ORM paid the subcontractor costs without identifying whether those charges were allowable. We estimate that as much as \$370,642 of the subcontractor costs may be recoverable.

SUMMARY OF RECOMMENDATIONS

We directed three recommendations to ORM, which focused on: (1) determining the amount of unallowable charges paid for by the District to the subcontractor and recouping those monies; (2) requiring that subcontractor costs be reported separately from disability compensation payments and medical costs in order for ORM to better identify and manage subcontractor costs; and (3) establishing procedures to ensure that the TPA requests prior approval for services that are allocated loss adjustment expenses prior to initiating services.

MANAGEMENT'S RESPONSE AND AUDIT COMMENTS

ORM provided a written response to our Management Alert Report (MAR) on December 12, 2006. ORM did not concur with Recommendations 1 and 2. ORM's response to Recommendation 3 does not contain enough information to determine whether corrective actions meet the intent of the recommendation. The full text of ORM's response is included at Exhibit C.

INTRODUCTION

BACKGROUND

The Disability Compensation Program (Disability Comp Program) was established by the District of Columbia Merit Personnel Act of 1978 (D.C. Law 2-139) to pay compensation to District employees injured or killed while in performance of official duties, excluding uniformed police and fire personnel. Compensation is not paid to employees whose injury or death is caused by (1) willful misconduct of the employee, (2) the employee's intention to bring about the injury or death of himself or herself or of another or (3) the intoxication of the injured employee. D.C. Code § 1-623.02 (LEXIS through D.C. Law 16-188).

Administration of the Disability Comp Program. In FY 2004, the administrative functions of the Disability Comp Program were transferred to the Office of Risk Management (ORM). The disability compensation hearings and adjudication powers are overseen by the Department of Employment Services. ORM employs five full-time employees to administer the Disability Comp Program. The Disability Comp Program is headed by a Program Manager. Additionally, two claim specialists provide technical supervision, support, and guidance to contractor staff and one reconsideration specialist is responsible for the receipt, review, and final dispensation of all requests for reconsiderations of initial claim determinations pursuant to statutory authority.

The Disability Comp Program also has a return-to-work specialist who maintains a Job Bank to ensure that District claimants capable of returning to work have viable employment opportunities based upon their skill sets and their physical abilities.

Third Party Administrator (TPA). The day-to-day operations of the Disability Comp Program are performed by the TPA. In June 2005, the District awarded a 3-year contract, valued at \$9,438,987, to a contractor to serve as the TPA. As the TPA, the contractor conducts the day-to-day operations of the Disability Comp Program, which includes (but is not limited to) accepting claims, investigating claims, making eligibility determinations, and providing nurse case management (NCM)¹ services.

Specific services - such as field and vocational case management, additional medical examinations, and private investigations - are considered allocated loss adjustment expenses. Allocated loss adjustment expenses are services agreed upon by ORM and the contractor to be charged at actual cost and paid for by the District directly to providers on a claim-by-claim basis. Therefore, these expenses are not covered in the \$9.4 million contract.

¹ Nurse case management is the ongoing process of closely monitoring the treating physician's diagnosis, recommendation for treatment, disability status, and return to work projection.

INTRODUCTION

Disability Compensation Fund. The Disability Comp Program is funded by the District's General Fund.² The Disability Comp Program has a separate operating budget from ORM called the disability compensation fund. The disability compensation fund covers the lost wages of injured employees, medical expenses related to workplace injuries, the cost of five full-time employees assigned to administer the Disability Comp Program, and the cost of the TPA contract.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall audit objective was to determine whether rules published by the District concerning the termination, suspension, and reduction of disability compensation benefits for District employees were followed. Our specific objective for this audit was to determine whether the TPA complied with the terms of the TPA contract.

As part of our audit, we held interviews and discussions with ORM's management and administrative staff to gain a general understanding of the policies, procedures, and other controls used by ORM to manage and oversee the TPA. We also observed and interviewed the TPA's employees and the Office of Finance and Resource Management administrative staff to gather information on the processing of medical and disability compensation payments.

We held discussions and gathered information from the Office of Contracting and Procurement relating to the TPA contract. Additionally, we reviewed and analyzed documents submitted by the TPA to the District for payment and examined invoices for medical services claimants received.

The audit covered the period from July 1, 2005, to March 31, 2006. Part of our audit required us to rely on computer-based data. An assessment of the reliability of this automated information was made by comparison testing of selected data elements to documentation in the claim files. We concluded, based on our comparison test, that the automated information was sufficiently reliable.

This audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary.

² The General Fund includes tax and non-tax revenue that is earmarked for a particular purpose and is allocated to fund District programs during the annual budget process.

FINDING AND RECOMMENDATIONS

FINDING: SUBCONTRACTOR COSTS

SYNOPSIS

ORM needs to improve its management of the Disability Comp Program's funds. We found that the TPA charged unallowable costs to the Disability Comp Program. We attribute this condition to ORM's failure to identify whether charges reported by the TPA were allowable. Additionally, ORM's management was not knowledgeable of the terms of the TPA contract. As a result, ORM had no assurance that charges reported by the TPA were allowable. We estimate that as much as \$370,642 of the subcontractor costs may be recoverable.

DISCUSSION

Our audit revealed that the TPA improperly reported subcontractor costs for NCM services as allocated loss adjustment expenses to the District for payment. NCM is a service required to be performed by the TPA and is typically provided via the telephone. Specifically, the TPA contract provides:

- C.5.9.3 The Contractor shall ensure that NCM [a Nurse Case Manager] is involved in medical coordination and determination of medical necessity and denial of medical care based on the appropriateness of medical services with required tracking and follow up.
- C.5.9.5 The Contractor shall ensure that all NCM's are licensed nurses and accredited in a clinical setting and possess experience as an NCM in the state where they are performing case management.

Allocated loss adjustment expenses are services agreed upon by ORM and the TPA to be charged at actual cost and paid for by the District directly to providers (subcontractors) on a claim-by-claim basis. Specifically, Section B.2.2 of the TPA contract provides, in part:

Allocated loss adjustment expenses include all fees that are charged at actual cost and paid by the District directly to providers on a claim by claim basis such as private investigation fees, expert witness fees, court costs, copy fees, appraisers, cost of engaging experts, defense costs and additional medical exams.

Subcontractor Costs Improperly Charged to the District. During our review of 32 subcontractor charges reported to and paid for by the District, we found that 29

FINDING AND RECOMMENDATIONS

(91 percent) of those charges were unallowable. All of the charges reviewed were from the same subcontractor. The subcontractor maintains an agreement with the TPA to provide disability management and managed care services to the TPA's clients. These services include NCM, field and vocational case management, and additional medical examinations.

NCM and field and vocational case management services are required to be provided by the TPA according to the contract between ORM and the TPA. However, field and vocational case management services, as well as additional medical examinations, are considered allocated loss adjustment expenses and are, therefore, charged at actual cost and paid by the District directly to the providers on a claim-by-claim basis. Because the costs of those services are in addition to the \$9.4 million awarded to the TPA, approval must be obtained from the Contracting Officer's Technical Representative (COTR), ORM, prior to initiating services in order to control the cost of the Disability Comp Program. Our review of the 32 subcontractor charges found that the TPA did not obtain the COTR's approval prior to initiation of field case management and additional medical services.

Further, NCM services, excluding field and vocational case management services, are covered in the \$9.4 million award to the TPA. Therefore, NCM services are the responsibility of the TPA and not separately billable to the District. However, our review found that the TPA submitted NCM service costs to the District for payment.

We reviewed the 32 subcontractor charges for NCM, field and vocational case management, and additional medical examination services to determine the charges that represented allowable and reimbursable expenses. Of the total 32 subcontractor charges, valued at \$4,676.28, only \$1,514.68 were allowable charges for field case management and additional medical examinations. Table I below provides a breakdown of the services provided by the subcontractor and their costs.

Table I. Breakdown of Services provided by the Subcontractor and their Costs

Analysis of Allowable Costs			
Services Rendered	No. of Claims Receiving Services	Allowable Costs	Unallowable Costs
Field Case Management	2	\$737.18	
Vocational Case Management	0	\$0.00	
Additional Medical Examinations	1	\$777.50	
Nurse Case Management	29	\$0.00	\$3,161.60
Total	32	\$1,514.68	\$3,161.60

For the period July 1, 2005, through June 30, 2006, the District paid \$408,985 to the subcontractor. Based on the results of our sample, we estimate that \$370,642 of the \$408,985 (91 percent) constitutes potential unallowable charges for NCM services, thereby increasing the cost of administering the Disability Comp Program.

FINDING AND RECOMMENDATIONS

These subcontractor charges were included in the pre-fund report submitted to ORM. The pre-fund report is prepared weekly by the TPA and submitted to the District for payment. The report provides the names of injured workers and medical providers entitled to payment from the disability compensation fund. The report can be cumbersome because of the large number of medical bills paid and injured workers receiving disability compensation. Some pre-fund reports had as many as 1,271 scheduled payments listed. ORM is responsible for reviewing the report to validate and ensure the accuracy of the costs reported by the TPA. In our opinion, ORM should require the TPA to submit subcontractor costs in a separate report so that ORM may better identify and manage subcontractor costs.

RECOMMENDATIONS

We recommend that the Interim Chief Risk Officer:

1. Determine the amount of unallowable charges paid by the District to the subcontractor and recoup the payments made to the subcontractor for unallowable nurse case management services from the TPA.
2. Require that subcontractor costs be reported separately on the pre-fund report from disability compensation payments and medical costs in order for ORM to better identify and manage subcontractor costs.
3. Establish procedures to ensure that the TPA requests prior approval for services that are allocated loss adjustment expenses prior to initiating services.

ORM RESPONSE (Recommendation 1)

ORM did not concur with the recommendation. In its response, ORM stated that the subcontractor was hired at the inception of the contract to provide nurses to conduct reviews of the claim files. The subcontractor services were retained for the period June 2005 through June 2006. ORM reports that the total cost for these services was \$139,212. ORM stated that the subcontractor's costs were treated as allocated loss adjustment expenses and paid as if they were field and vocational case management and additional medical examinations expenses. Additionally, ORM states that the subcontractor assisted the TPA in closing claims, which helped reduce the cost of the Disability Comp Program by \$818,794.

OIG COMMENT

ORM's response was not responsive. The District maintained no agreement with any other companies (subcontractors) during the period June 2005 through June 2006 to provide medical file review services, except with the TPA. The medical file review services that

FINDING AND RECOMMENDATIONS

ORM states the subcontractor was hired to perform were part of the TPA's contractual obligation under the TPA contract. Specifically, the TPA contract provides:

- C.5.9.3 The Contractor shall ensure that NCM [a Nurse Case Manager] is involved in medical coordination and determination of medical necessity and denial of medical care based on the appropriateness of medical services with required tracking and follow up.
- C.5.9.4 The Contractor shall ensure that NCM reports include action plans and are provided at 30 day intervals or sooner if there is a significant case development.
- C.5.9.5 The Contractor shall ensure that all NCM's are licensed nurses and accredited in a clinical setting and possess experience as an NCM in the state where they are performing case management.

ORM's actions to enter into an agreement with the subcontractor and treat the services provided as allocated loss adjustment expenses, in order to pay the subcontractor, were inappropriate. Additionally, we disagree with ORM's position that the subcontractor's file review services saved the District \$818,794. The TPA should have realized the \$818,794 cost reduction in the Disability Comp Program, without the services of the subcontractor, as part of its contractual obligation to the District. In fact, the District did not get the full benefit of those savings, which were improperly offset by \$370,642 in District funds paid for NCM services covered under the basic TPA contract.

ORM should reconsider its position on our recommendation and recoup Disability Comp Program funds paid to the subcontractor for basic services covered under the TPA contract.

ORM RESPONSE (Recommendation 2)

ORM did not concur with the recommendation. ORM stated that all costs are identified by vendor on the pre-fund report and all allocated costs are identified on each claimant file.

OIG COMMENT

ORM's response was not responsive. ORM should reconsider its position on Recommendation 2 and require subcontractor costs be reported separately on the pre-fund report to better identify and manage those costs.

FINDING AND RECOMMENDATIONS

ORM RESPONSE (Recommendation 3)

ORM did not fully address the recommendation. ORM stated that all the TPA's requests for service (allocated loss adjustment expenses) will be forwarded to the Acting Disability Compensation Manager for prior approval.

OIG COMMENT

ORM's response did not contain enough information for us to determine whether the corrective action meets the intent of the recommendation. ORM did not address what controls would be put in place to ensure that all allocated loss adjustment expenses are approved by ORM prior to initiating those services.

EXHIBITS

EXHIBIT A

SUMMARY OF POTENTIAL MONETARY AND NON MONETARY BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit	Status ³
1	Economy and efficiency. Recovers funds paid to subcontractor for services covered under the TPA contract award.	Monetary As much as \$370,642	Unresolved
2	Internal control and economy and efficiency. Establishes controls over costs reported on the pre-fund report to identify and manage subcontractor costs.	Non-Monetary	Unresolved
3	Internal control and economy and efficiency. Establishes procedures to monitor and control allocated loss adjustment expenses that increase the cost of the Disability Comp Program.	Non-Monetary	Unresolved

³ This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBITS

EXHIBIT B: MANAGEMENT ALERT REPORT NO. 06-A-11

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



September 28, 2006

Kelly Valentine
Interim Chief Risk Officer
Office of Risk Management
One Judiciary Square
441 4th Street N.W., Suite 800
Washington, DC 20001

Subject: **Management Alert Report on Subcontractor Costs**

Dear Ms. Valentine:

The Office of the Inspector General (OIG) is currently conducting an audit of the District of Columbia Employee's Disability Compensation Program (Program). The audit is being conducted under OIG project no. 06-1-07BG.

The purpose of this Management Alert Report (MAR No. 06-A-11) is to inform you that subcontractor costs are being improperly charged to the District by the third party administrator, CompManagement of Virginia, Inc. (CMI). During the course of our review of disability compensation claims, we found that the Office of Risk Management (ORM) paid subcontractor charges to Genex Services, Inc. (Genex) without identifying whether those charges were allowable. Our review of 32 subcontractor charges reported to and paid for by the District found that 29 (91 percent) of those charges were improperly charged to the District because Nurse Case Management (NCM) charges are covered under the basic contract with CMI and are not separately reimbursable to Genex. Further, it appears that as much as \$370,642 of the \$408,985 paid to Genex may be recoverable.

BACKGROUND

The ORM assumed responsibility for the administration of the Program on January 20, 2004. In June 2005, ORM awarded CMI a 3-year contract valued at \$9,438,987 to function as the third-party administrator for the Program. As the third-party administrator, CMI conducts the day-to-day operation of the Program, which encompasses accepting and investigating claims, making determinations of eligibility, and providing NCM services.

717 14th Street, N.W., Washington, D.C. 20005 (202) 727-2540

EXHIBITS

EXHIBIT B: MANAGEMENT ALERT REPORT NO. 06-A-11

Kelly Valentine, Interim Chief Risk Officer, ORM
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Specific services such as field and vocational case management, additional medical examinations (AMEs), and private investigations are considered allocated loss adjustment expenses. Allocated loss adjustment expenses are services agreed upon by ORM and CMI to be charged at actual cost and paid for by the District directly to providers on a claim-by-claim basis. Therefore, these expenses are not covered in the \$9 million contract with CMI. However, NCM services are included in the CMI contract.

SUBCONTRACTOR COSTS IMPROPERLY CHARGED TO THE DISTRICT

During our review of 32 subcontractor charges reported to and paid for by the District, we found that 29 (91 percent) of those charges were unallowable. All of the charges reviewed were from Genex. Genex maintains an agreement with CMI to provide disability management and managed care services to CMI clients. These services include NCM, field and vocational case management, and AMEs.

NCM is the ongoing process of closely monitoring the treating physician's diagnosis, recommendation for treatment, disability status, and return to work projection. The CMI contract, section C.5.9.3 states, "The Contractor [CMI] shall ensure that NCM [the Nurse Case Manager] is involved in medical coordination and determination of medical necessity and denial of medical care based on the appropriateness of medical services with required tracking and follow up." All cases where lost time will exceed 2 weeks are required to be assigned to care management consultants for NCM. These consultants are licensed nurses that typically provide services via the telephone, depending on the injury sustained by the claimants.

Cases involving severe injuries are assigned to a specific type of NCM referred to as field case management (FCM).¹ FCM involves on-site case management by a nurse assigned to the claim. Vocational case management (VCM) consists of assisting injured workers in job placement.

NCM, FCM, and VCM are services that are required to be provided by CMI according to the contract between ORM and CMI. However, field and vocational case management services, as well as AMEs, are considered allocated loss adjustment expenses. Services that fall under allocated loss adjustment expenses are charged at actual cost and paid by the District directly to the providers on a claim-by-claim basis. Because the costs of those services are in addition to the \$9,438,987 awarded to CMI, approval must be obtained from the Contracting Officer's Technical Representative (COTR), ORM, prior to initiating services in order to control the cost of the Program. Our review of the 32 subcontractor charges found that CMI did not obtain the COTR's approval prior to initiation of FCM and IME services.

¹ CMI/D.C. Government Claim Procedure Manual, Established Criteria for Field Case Management, 71-72.

EXHIBITS

EXHIBIT B: MANAGEMENT ALERT REPORT NO. 06-A-11

Kelly Valentine, Interim Chief Risk Officer, ORM
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Additionally, NCM, excluding field and vocational services, are covered in the \$9 million award to CMI. Therefore, NCM services are the responsibility of CMI and not the District. However, our review found that CMI reported Genex NCM service costs to the District in the pre-fund report for payment.

We reviewed the 32 subcontractor charges for NCM, FCM, and AME services to determine the charges that represented allowable and reimbursable expenses. Of the total 32 subcontractor charges, valued at \$4,676.28, only \$1,514.68 were allowable charges. See the table below for the breakdown of the services and their costs.

Analysis of Allowable Costs			
Services Rendered	No. of Claims Receiving Services	Allowable Costs	Unallowable Costs
Field Case Management	2	\$737.18	
Vocational Case Management	0	\$0.00	
Independent Medical Examination	1	\$777.50	
Nurse Case Management	29	\$0.00	\$3,161.60
Total	32	\$1,514.68	\$3,161.60

For the period July 1, 2005, through June 30, 2006, the District paid \$408,985 to Genex. Based on the results of our sample, we estimate that \$370,642 of the \$408,985 (91 percent) constitutes potential unallowable charges for NCM, thereby increasing the cost of administering the Program.

These subcontractor charges were included in the pre-fund report submitted to ORM. The pre-fund report is prepared weekly by CMI and submitted to the District for payment. The report provides the names of injured workers and medical providers entitled to payment from the disability compensation fund. The report can be cumbersome because of the large number of medical bills being paid and injured workers receiving disability compensation. Some pre-fund reports had as many as 1,271 scheduled payments listed. ORM is responsible for reviewing the report to validate and ensure the accuracy of the costs reported by CMI. In our opinion, ORM should require CMI to submit subcontractor costs in a separate report so that ORM may better identify and manage subcontractor costs.

RECOMMENDATIONS

We recommend that the Interim Chief Risk Officer:

1. Determine the amount of unallowable charges paid by the District to Genex and recoup the payments made to Genex for unallowable nurse case management services from CMI.

EXHIBITS

EXHIBIT B: MANAGEMENT ALERT REPORT NO. 06-A-11

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2. Require that subcontractor costs be reported separately on the pre-fund report from disability compensation payments and medical costs in order for ORM to better identify and manage subcontractor costs.
3. Establish procedures to ensure that CMI requests prior approval for services that are allocated loss adjustment expenses prior to initiating services.

CLOSING

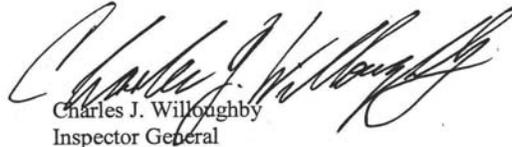
Please provide your response to the recommendations by **October 19, 2006**. Your response should include actions planned or taken, target dates for completing planned actions, and reason(s) for any disagreements with the finding and recommendations. You may suggest alternative actions that would resolve the conditions disclosed in this report.

Although no recommendations are addressed to the contractors, we are providing the contractors with a courtesy copy should the contractors desire to provide comments.

Our intention is to limit distribution of this Management Alert Report until comments are received. Therefore, please circulate it only to those personnel who will be directly involved in preparing your response. The finding in the MAR is part of a work in progress, with additional audit work progressing on the overall issue of the administration of the Program. The completed audit will be the subject of a separate report that incorporates the resolution of the preliminary results of this MAR.

Should you have questions concerning this report or desire a conference before preparing your response, please call William J. DiVello, Assistant Inspector General for Audits or me at 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

CJW/ev

cc: Mr. Edward D. Reiskin, Interim City Administrator
[REDACTED] CMI Octagon "A Sedgwick CMS Company"
Mr. Herbert R. Tillery, Interim Chief Procurement Officer

EXHIBITS

EXHIBIT C: MANAGEMENT'S RESPONSE



DISTRICT OF COLUMBIA GOVERNMENT DC OFFICE OF RISK MANAGEMENT

Kelly Valentine
Interim Chief Risk Officer

December 12, 2006

Charles J. Willoughby
Inspector General
Office of the Inspector General
717 14th Street, NW, Suite 800
Washington, DC 20005

RE: Management Alert Report on Subcontractor Costs (MAR No. 06-A-11)

The purpose of this letter is to respond to the Management Alert Report recommendations provided by the Inspector General to the Office of Risk Management on September 28, 2006.

1. Determine the amount of unallowable charges paid by the District to Genex and recoup the payments made to Genex for unallowable nurse case management services from CMI.

In reviewing the MAR No. 06-A-11, "Nurse Case Management" (NCM) services are defined as, services that are required to be provided by CMI Octagon CMI Octagon "A Sedgwick CMS Company" (CMI) according to the contract between the Office of Risk Management (DCORM) and CMI. Further clarification on Field Case Management (FCM), Vocational Case Management (VCM) and Independent Medical Examination (IME) are services that are considered under "allocated loss adjustment" expenses. In the current contract, Nurse Case Management "telephonic nurse services" are part of the contract.

The Genex nurses were hired at the inception of the contract to do "Medical File Review Services" on the large volume of open aged cases that were inherited by CMI. Genex was conducting the "file reviews" between June 2005 to June 2006. The nurses were to help assist triaging the files and make recommendations on the medical management when it comes to reviewing injuries, file closure, IME's, FCM, VCM, and request medical records if necessary. Genex employed [REDACTED] who was staffed at the Judiciary Square location in the Office of Risk Management and was accessible to the DCORM and CMI staff when it came to reviewing the open aged claims.

After a review of the cases at the Judiciary Square location, [REDACTED] was involved in the review at DCORM/CMI, New York Avenue location and continued her analysis and was replaced by [REDACTED] in the Spring of 2006. Genex reviewed a total of 1,287 open cases for a cost of \$139,212 that equates to an average of \$108.00 per file review. The costs were billed against each file and were "itemized" for the time spent and invoiced separately (please see attached invoices). The nurses completed concise notes in the files with their recommendations and completed "Case Summary Reports" on the files. The billing was paid under the "medical portion" of the file however treated as an "allocated loss adjustment expense", paid as if FCM,

441 4th Street NW, Suite 800S, Washington DC 20001

Office: 202-727-8600 ♦ Fax: 202-727-8319

EXHIBITS

EXHIBIT C: MANAGEMENT'S RESPONSE



DISTRICT OF COLUMBIA GOVERNMENT DC OFFICE OF RISK MANAGEMENT

Kelly Valentine
Interim Chief Risk Officer

VCM, and IME's expenses. The "management alert" indicates a total of \$408,985 was paid to Genex. A total of \$139,212 of the total represents "Medical File Review Services". The remaining \$269,773 in expenses represent allowable charges that are part of Field Case Management, Vocational Case Management, and Independent Medical Examinations.

The services provided by Genex were to be a one time assignment as they were tasked in reviewing the inherited claims and help in the transitioning of cases for medical management. The claims staff with the help of Genex was successful in closing cases and was able to produce overall savings to the program. A recent analysis for FY05-FY06 indicated that there was a total reduction of indemnity payments of a -22%, and file closures in FY06 increased by 344%. The total payment reduction between the "indemnity and medical" line savings resulted in \$818,794.31 in savings (Please see attached graph charts).

2. Require that subcontractor costs be reported separately on the pre-fund report from disability compensation payments and medical costs in order for ORM to better identify and manage subcontractor costs.

All costs are identified by vendor on the pre-fund report and all allocated costs are identified on each claimant file.

3. Establish procedures to ensure that CMI requests prior approval for services that are allocated loss adjustment expenses prior to initiating services.

All CMI requests for service (allocated loss adjustment expenses) will be forwarded to Acting Disability Compensation Manager, for prior approval.

Sincerely,

Kelly Valentine
Interim Chief Risk Officer

cc: Mr. Edward D. Reiskin, Interim City Administrator
, Director, CMI Octagon "A Sedgwick CMS Company"
Senior Vice President, CMI Octagon "A Sedgwick CMS Company"