

September 21, 2004

Internal Audit Report 2004-11
Ward North Contract Compliance Follow-Up Audit
Risk Management Division
Municipal Manager

Introduction. Since 1998, the Municipality of Anchorage (Municipality) has contracted for professional adjusting services with Ward North America Holding, Inc. (Ward North). In 2004, the contract for claims adjusting services between the Municipality and Ward North was for \$389,392, an increase of about 14.5 percent since 1999. The contract for claims adjusting services with Ward North will expire on December 31, 2004, with no renewal options. As a result, the contract for claims adjusting services is in the Request for Proposal (RFP) process.

Objective and Scope. The objective of this audit was to follow-up on the audit findings and recommendations from Internal Audit Report 2003-11, Ward North Contract Compliance. As part of our audit, we randomly selected and reviewed 30 workers' compensation and liability claims opened between January and June of 2004 to determine whether the contract administrator had implemented the recommendations from the 2003-11 audit report. Additionally, we judgementally selected 10 claims opened prior to May 2002 that we reviewed from the previous audit to determine whether any action had been taken on these claims since the previous audit.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the month of August 2004. The audit was requested by the Municipal Assembly.

Overall Evaluation. Ward North has made considerable progress in complying with the previous audit findings and recommendations. Our review found Ward North had been actively managing all open claims. We also found all adjusters assigned to the Municipality's account now possess the required years of adjusting experience. Moreover, Ward North has shown progress in setting proper reserves that were reflective of the ultimate probable costs of the claims. In addition, Ward North has increased their efforts to properly supervise their adjusters. Our review of the Modified Work Program revealed that the Mayor rescinded Policy and Procedure (P&P) 40-12, Modified Work Program, on September 15, 2003. Finally, we found Risk Management had developed a formal policy and procedure of how sewer back-up and the resultant cleanup should be handled, although it has not yet been approved.

However, we identified three findings that were similar to the findings we identified in the previous audit. Specifically, Ward North did not identify subrogation interests for all claims we reviewed and had not taken any statements in regard to back-related injury claims. In addition, Risk Management had not included any time frames for performance in the contract.

Management Comments to Overall Evaluation. Management concurred and stated, "Since 2003, Ward has made major improvements in their services. The Adjusting and Administrative industry as a whole has gone through a major upheaval in the past 5 years. With companies losing their market shares and employees abandoning ship, turn over has been at an all time high for what many in the industry consider a thankless job. Ward North America was no exception. Since the Audit report of 2003-11, Ward was able to attract experienced adjusters and stabilize their management staff. Risk is still in the process of fine tuning this process."

FINDINGS AND RECOMMENDATIONS

1. Subrogation Not Identified or Pursued.

- a. Finding.** Our review of 30 randomly selected claims revealed that Ward North did not identify and/or pursue all subrogation interests. For example, on one claim the supervisor told the adjuster to investigate the potential for subrogation if medical treatment was sought. However, the claim was closed in August 2004 and the subrogation interest was never followed-up on even though medical treatment was sought. The prior audit report identified a similar finding. Management's response to the audit report stated they would "... work to revise contract for professional claims adjusting services to include a performance incentive for the contractor to pursue all subrogation interests on a percentage basis." However, the contract does not include performance incentives for identifying and pursuing subrogation interests.
- b. Recommendation.** Risk Management should ensure the contract includes performance incentives.
- c. Management Comments.** Management stated, "Concur with reservation. Each file, prior to being sent to Ward, is reviewed by the Risk Manager. If subrogation is a possibility, then a note is placed on the claim with recommendations to pursue subrogation. I have found, by review of the files in question, that rather than not pursuing subrogation, the adjuster is guilty of not documenting why subrogation was not in order. We have added a requirement that each file address subrogation in the initial stages of the investigation. If it is possible to add a financial incentive as a percentage of recovery, excluding Second Injury Fund Reimbursement, please advise. I would recommend 5%."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Back Injury Statements Not Taken.**

- a. **Finding.** Ward North did not obtain statements for back injury claims. During our review of nine claims involving back-related injuries we found statements had not been taken for all nine claims. The prior audit report identified a similar finding. Management's response stated they would "... ensure a statement has been taken for each back claim to insure compliance with contract."
- b. **Recommendation.** Risk Management should ensure statements are taken for all claims involving back-related injuries.
- c. **Management Comments.** Management concurred and stated, "We have implemented a tracking system on each back claim and requested a monthly status report on statements taken. We will also institute a random review on the quality of these statements in our monthly review."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Contract Deliverables Not Clear or Measurable.**

- a. **Finding.** We found that RFP 24-P036, with the sample contract attached, did not contain any time frames for performance. While the scope of work in the RFP and sample contract did contain specific actions required of the contractor for processing claims, time limits were not included to require timely action. The prior audit identified a similar finding with the current contract and recommended contracts for

adjusting services include measurable time frames by which contractor performance could be measured. Management's response to the prior audit stated that they would " . . . work with appropriate personnel to develop a new contract to include 'time frames' for performance . . ."

- b. **Recommendation.** Risk Management should ensure the contract includes time frames and clearly defined contract deliverables.
- c. **Management Comments.** Management concurred and stated, "Although we were advised by Purchasing that we should not be point specific in our contract, we will add 'measurable time frames' to our contract when we negotiate for 1/1/05."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit recommendation. However, according to the Purchasing Officer, Purchasing has always encouraged Municipal officials to include clear and measurable contract deliverables in contracts.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on August 23, 2004.

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