

INTERNAL AUDIT REPORT

2025-02

Workers' Compensation Claims Review

Risk Management Department

April 01, 2025

MUNICIPALITY OF ANCHORAGE
Office of Internal Audit
632 W 6th Avenue, Suite 710
P.O. Box 196650
Anchorage, Alaska 99519-6650
www.muni.org/departments/internal_audit



OFFICE OF INTERNAL AUDIT
Alden Thern
Director
Phone: (907) 343-4438

E-Mail: alden.p.thern@anchorageak.gov



MUNICIPALITY OF ANCHORAGE
MAYOR SUZANNE LAFRANCE

OFFICE OF INTERNAL AUDIT

April 01, 2025

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review the **Internal Audit Report 2025-02, Workers' Compensation Claims Review, Risk Management Department**. A summary of the report is presented below.

In accordance with the 2025 Audit Plan, we performed an audit of the Workers' Compensation Claims. The objective of this audit was to determine if there are adequate controls over processing workers' compensation claims and if the Risk Management Department was adhering to existing policies and regulations in Alaska Statute. Specifically, we reviewed samples of selected workers' compensation claims from 2023 and 2024, to determine if claims were properly processed, timely payments were made to individuals, and the reporting due dates were met in accordance with Alaska Statute. In addition, we also reviewed the Risk Management Department budget information and self-insurance rate calculations to determine the adequacy of the workers' compensation fund balance.

Overall, based on our review, we found the Risk Management Department controls over the processing of workers' compensation claims needs to be improved. Specifically, we found self-insurance rates were not adjusted to maintain the workers' compensation fund balance, and the Risk Management Department has not been calculating self-insurance rates to comply with Municipal Policy and Procedure 56-4, *Municipal Safety Program*. In addition, we found the Risk Management Department lacks comprehensive written policies and procedures or desk manuals to adequately and accurately determine the roles and responsibilities of staff in the Department. Finally, we found workers' compensation claims' medical bill payments, time loss compensation payments, and reporting due dates in Alaska Statute were not always met.

There were four findings in connection with this audit. Management comments were responsive to each audit finding and recommendation.

Alden P. Thern



Director, Internal Audit



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Introduction. The Municipality of Anchorage's (Municipality) Risk Management Department (Risk Management) oversees workers' compensation claims which includes review of claim documentation, determination of benefit amounts, timely payments to injured employees and medical providers, and reporting of claims to the State of Alaska (State). The Municipality is approved as a self-insured employer through the State and is required to adhere to regulations under Alaska Statute 23.30, *Alaska Workers' Compensation Act*. The Alaska Workers' Compensation Act requires an employer to pay an injured employee's work-related medical bills, compensation for time loss, and disability/death benefits. Injured employees submit injury reports and claim information through their supervisors to Risk Management. Risk Management maintains claim information in the Claim Pilot software system and uploads it to a State maintained database for reporting. Risk Management currently has six staff: Risk Manager, Deputy Risk Manager, Workers' Compensation Claims Coordinator, Workers' Compensation Claim Adjuster II, and two Claim Adjuster I's. In 2024, Risk Management received 505 employee claims and paid over \$7 million for current and previous years workers' compensation claims.

Objective and Scope. The objective of this audit was to determine if there are adequate controls over processing workers' compensation claims and Risk Management was adhering to existing policies and regulations in Alaska Statute. Specifically, we reviewed samples of selected workers' compensation claims from 2023 and 2024 to determine if claims were properly processed, timely payments were made to individuals, and the reporting due dates were met in accordance with Alaska Statute. In addition, we also reviewed Risk Management budget information and self-insurance rate calculations to determine the adequacy of the workers' compensation fund balance.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overall Evaluation. Our review found Risk Management's controls over the processing of workers' compensation claims needs to be improved. Specifically, we found self-insurance rates were not adjusted to maintain the workers' compensation fund balance, and Risk Management has not been calculating self-insurance rates to comply with Municipal Policy and Procedure (P&P) 56-4, *Municipal Safety Program*. In addition, we found Risk Management lacks comprehensive written P&Ps or desk manuals to adequately and accurately determine the roles and responsibilities of staff in the Department. Finally, we found workers' compensation claims' medical bill payments, time loss compensation payments, and reporting due dates in Alaska Statute were not always met.

FINDINGS AND RECOMMENDATIONS

1. Self-Insurance Rates Not Adjusted to Maintain Fund Balance.

- a. Finding.** Self-insurance rates were not adjusted to maintain the workers' compensation fund balance. Specifically, we found the current calculated self-insurance rates used in determining deposits into the workers' compensation fund to pay for claims had been finalized in January 2023. However, to date, these rates have not been updated to reflect new claims experience, increased medical costs, and department expenses for 2023 and 2024. As a result, Risk Management expenses have been exceeding the revenue deposited from the self-insurance rates, and the Municipality's workers' compensation fund balance does not have adequate reserves to pay for these expenses. According to the Municipality's financial system, SAP, as of January 2025, the fund used to pay for workers' compensation claims, various insurance, and Risk Management/Safety Department expenses had over a \$16.5

million fund balance deficit that has continued to increase since 2018. Persistent fund deficits decrease the overall fiscal health of the Municipality and increase the risk of the Municipality's bond credit ratings being lowered.

In addition, we found that the current self-insurance rates being used were not calculated to include past Municipal Light & Power (ML&P) employees who were still receiving workers' compensation payments for claims filed prior to the sale of ML&P. Specifically, we found that from the ML&P sale date of October 30, 2020, through January 31, 2025, Risk Management paid \$308,875 in workers' compensation to past ML&P employees. However, past ML&P employee workers' compensation expenses do not appear to have been considered during calculations for 2023 self-insurance rates, adding to the deficit with no way to recover the extra expense.

- b. **Recommendation.** The Chief Administrative Officer should ensure updates are made to the self-insurance rates, and the fund balance deficit is eliminated.
- c. **Management Comments.** "Management agrees that the self-insurance rates need to be adjusted. It is our understanding, as well, that the rates have not been adjusted since 2023. The Chief Administrative Officer, Chief Fiscal Officer, and Office of Management & Budget are improving the rate-calculation methodology, and aim to propose changes this calendar year.

Some additional context may be helpful. Financial reporting related to the Municipality's "General Liability and Workers' Compensation Fund" is found in the annually reported "Detail Statements," published with the Municipality's Annual Comprehensive Financial Report. *See*

<https://www.muni.org/Departments/finance/controller/pages/ACFR.aspx> From a review of the last ten years, two items may be helpful to note.

First, the existence of a fund deficit is not new, but the magnitude of the deficit increased significantly after 2020:

Year	Fund Deficit
2022	\$13,787,485
2021	\$9,426,611
2020	\$6,569,191
2019	\$5,574,028
2018	\$3,185,954
2017	\$4,580,037
2016	\$5,113,340
2015	\$3,205,093
2014	\$(3,260,400)

See generally Exhibits FF-14 to the MOA's Annual Consolidated Financial Statements.

Second, a significant component of the reported fund deficit is claims "Incurred But Not Yet Reported," sometimes called "IBNR." As defined by the Municipality's actuarial contractor, IBNR is an estimated claims expense to account for: (a) events that have occurred for which claims have not yet been reported, (b) future development on known open claims; (c) claims that have been reported but not yet recorded in the loss listing; and (d) claims that have been closed but that will be reopened. As consequence, IBNR can be thought of as a best-guess estimate of liabilities that, while not present or payable today, may appear in the future. In that respect, IBNR should be accounted for, and funded, but is not a presently owed liability. The following table depicts the growth of the fund's IBNR, and its contribution to the fund's overall balance.

Year	WC/GL IBNR	Fund deficit excluding IBNR
2022	\$12,251,971	\$1,535,514
2021	\$11,395,376	\$(1,968,765)
2020	\$10,509,727	\$(3,940,536)
2019	\$8,909,728	\$(3,335,700)
2018	\$7,173,088	\$(3,987,134)
2017	\$7,890,348	\$(3,310,311)
2016	\$9,928,112	\$(4,814,772)
2015	\$9,028,167	\$(5,823,074)
2014	\$8,111,053	\$(11,371,453)

See generally Exhibits FF-13 to the MOA's Annual Consolidated Financial Statements. The fund's IBNR reported here is the sum of the IBNR figures reported for the fund as "current" and "non-current" liabilities:

Year	Current Liability IBNR	Non-current Liability IBNR	WC/GL IBNR (Current + Non-Current)
2022	\$ 3,942,899	\$ 8,309,072	\$ 12,251,971
2021	\$ 3,623,535	\$ 7,771,841	\$ 11,395,376
2020	\$ 3,283,151	\$ 7,226,576	\$ 10,509,727
2019	\$ 2,761,019	\$ 6,148,709	\$ 8,909,728
2018	\$ 2,413,522	\$ 4,759,566	\$ 7,173,088
2017	\$ 2,487,310	\$ 5,403,038	\$ 7,890,348
2016	\$ 3,198,889	\$ 6,729,223	\$ 9,928,112
2015	\$ 2,707,727	\$ 6,320,440	\$ 9,028,167
2014	\$ 2,506,356	\$ 5,604,697	\$ 8,111,053

The Administration is actively investigating the growth of IBNR.

Finally, because clearing the fund-balance deficit in the WC/GL fund will necessarily have to involve appropriating dollars to this fund that could otherwise fund general-government activities, a fund-balance recovery plan will anticipate a multi-year recovery."

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

2. **Self-Insurance Rates Not Calculated by Risk Management.**

- a. **Finding.** Risk Management has not been calculating self-insurance rates to comply with P&P 56-4. Specifically, instead of Risk Management calculating the self-insurance rates as required, Risk Management provided three previous years of individual department claims data to the Controller. The Controller would then calculate and update the rates annually using their own internal formula. According to the Office of Management and Budget staff, for at least the last 15 years the process has been in the hands of the Controller. However, after the departure of the previous Risk Manager and Controller, there does not appear to be any current staff with knowledge of the past rate calculation process. As a result, noncompliance with self-insurance rate calculations may have contributed to the conditions in Finding #1. Policy and Procedure 56-4 states that "The Risk Management division will establish a self-insurance rate for each Municipal budget unit that represents auto liability, general liability and workers' compensation loss experience. The established rate shall be based on actual losses experienced."
- b. **Recommendation.** The Chief Administrative Officer should ensure calculations of the self-insurance rates comply with Municipal P&P 56-4 or update P&P to reflect the calculations as the Controller's responsibility.
- c. **Management Comments.** "Management concurs with the finding and recommendation. While significant expertise resides in the Office of Management & Budget and Risk Management, we acknowledge that relying on ad-hoc practices instead of established written procedures introduces the risk of inconsistent process application. A revision of the policies and procedures documentation (P&P) is underway to align with current practices, and a draft is anticipated within 180 days."

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

3. **Lack of Comprehensive Policies and Procedures.**

- a. **Finding.** Risk Management lacks comprehensive written P&Ps or desk manuals to adequately and accurately determine the roles and responsibilities of staff in the Department. Examples of these roles and responsibilities are in calculating self-insurance rates, documenting or processing claims, timeliness of reporting to the State, and requirements of other departments in documenting and reporting claims. For example, when a department supervisor becomes aware of an employee injury, Risk Management requires the supervisor's report of the injury to be submitted to them within 48 hours to allow adequate processing time for the claim. However, there is no policy or guideline for this requirement and is only briefly mentioned in the internal Risk Management form "Supervisor's Report of Injury to MOA Employee". As another example, there is no policy or guideline on the current practice of calculating the self-insurance rates as the Controller's responsibility nor details on how or how often the rates should be updated, contributing to the condition in Finding #1. The lack of written processes and policies lead to institutional knowledge being lost with the departure of staff, inconsistent practices among staff and/or departments with increased risk of errors, and ineffective training of new staff.
- b. **Recommendation.** The Chief Administrative Officer should ensure the Risk Manager creates and implements detailed P&Ps and desk manuals that reflect current practices for the entire operation of the workers' compensation process.
- c. **Management Comments.** "Management concurs with the finding and recommendation. Working desk manuals describing current workers' compensation claim handling practices, policies and procedures are anticipated within 180 days."

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

4. **Workers' Compensation Processing Due Dates Not Always Met.**

- a. **Finding.** We found that workers' compensation claims' medical bill payments, time loss compensation payments, and reporting due dates in Alaska Statute were not always met. The Alaska Workers' Compensation Act requires specific timelines to be met for submissions of injury reports and evidence, payments to injured employees and medical providers, and reporting of claims to the State. If these due dates are not met, penalties can be assessed. Specifically, we found the following:

- *Medical Bills Not Always Paid Timely* - We found 8 of 207 (4%) claims did not have medical bills paid within 30 days of being received by Risk Management. Alaska Statute Sec. 23.30.097, *Fees for medical treatment and services*, states that "An employer shall pay an employee's bills for medical treatment under this chapter, excluding prescription charges or transportation for medical treatment, within 30 days after the date that the employer receives the provider's bill, or a completed report as required..."
- *Time Loss Compensation Not Always Paid Timely* - We found one instance where a required absence from work was written in a doctor's note on May 2, 2023. However, the time loss compensation was not paid by Risk Management until May 25, 2023, 23 days later. Alaska Statute Sec. 23.30.150, *Commencement of compensation*, states that "The first installment of compensation becomes due on the 14th day after the employer has knowledge of the injury or death...If any installment of compensation payable without an award is not paid within seven days after it becomes due...there shall be added to the unpaid installment an amount equal to 25

percent of the installment.”

- *Employee Claims Not Always Reported to State of Alaska Timely* - We found 17 of 207 (8%) sampled workers' compensation claims were not reported to the State of Alaska within 10 days after management knew of the injury. Alaska Statute Sec. 23.30.070, *Report of injury to division*, states that “Within 10 days from the date the employer has knowledge of an injury or death or from the date the employer has knowledge of a disease or infection, alleged by the employee or on behalf of the employee to have arisen out of and in the course of the employment, the employer shall file with the division a report...”
- *Employee Injuries Not Always Reported to Management Timely* - We found 3 of 207 (1%) sampled workers' compensation claims where employees did not report their injuries to management within 30 days as required. For example, an employee injury occurred on September 24, 2024, but was not reported to management until November 26, 2024, 63 days later. Alaska Statute Sec. 23.30.100, *Notice of injury or death*, states that “Notice of an injury or death in respect to which compensation is payable under this chapter shall be given within 30 days after the date of such injury or death to the employer.”

- b. **Recommendation.** The Chief Administrative Officer should ensure the Risk Manager adheres to the required due dates found in Alaska Statute.
- c. **Management Comments.** “Management concurs with the finding and recommendation. The Risk Manager has discussed the importance of meeting the statutorily driven timeliness expectations with its three workers' compensation adjusters. Meeting these deadlines is substantially a manual endeavor, and the forthcoming desk manuals are expected to provide a framework to assist adjusters.”

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

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on February 27, 2025.

Audit Staff:
Dalton Benson