



RMG CONSULTING

Claims and Risk Management Executives

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Date

Re: – Initial Status Report

Dear

We have completed by initial review of both TPA in CITY, STATE and VENDOR in CITY, STATE. My initial findings are grouped into four categories, Background, TPA, S, Plan for Error Correction, and Recommended Timeframes for Error Correction. In order to keep this report fewer than 15 pages; I am only giving you the highlights of the larger issues facing TPA and VENDOR.

Sincerely,

AUDITOR

Enclosure

INSURANCE COMPANY

ACCOUNT NAME

Initial Status Report

DATE

By: AUDITOR

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Background

This review is focused on immediately reducing the statistical claim error backlog on the ACCOUNT NAME where TPA is both the MGA and TPA. This review did not cover claims handled by TPAs other than TPA.

I am working on the objective of accomplishing improvements as quickly as possible, with the message being the sooner the better.

My initial strategy follows:

1. Conduct an initial to visit TPA's offices in STATE, as they are the source for both the policy and claim data.
2. Review VENDOR's workflow in STATE, and spend a significant amount of time with the programmers at VENDOR 2.
3. Establish key areas where there is an immediate need to change workflows, and to begin the error correction process at VENDOR.
4. Objective was to have a significant number of errors corrected immediately.

This initial strategy worked well for my visit to TPA, with a few areas needing immediate improvements. This includes formalized account and system reconciliations. In addition, I did not expect that one of their servers would have crashed, and that TPA would be unable to give me data as of the DATE month-end close.

My initial strategy also hit a few unexpected problems during my visit to VENDOR's / COMPUTER SYSTEM offices. First, COMPUTER SYSTEM is not a company. COMPUTER SYSTEM is an insurance system maintained by VENDOR using SYSTEM #2's Information Technology Department in CITY, STATE. Besides VENDOR not receiving DATE claim data until DATE, VENDOR has no dedicated programmers.

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TPA

My initial review of TPA Corporation occurred Monday, DATE though Wednesday, DATE. During this time, we were given an introduction to TPA's current workflow concerning managing the Claims Administration process on behalf of INSURANCE COMPANY. I looked at how claims are received, how coverage is confirmed, and how the loss data is currently entered into the SYSTEM #2 Claims System. We did not review the claims management process or the reasonableness of expenses / losses paid on behalf of INSURANCE COMPANY. I also did not look at any insurance reporting done by TPA directly to state insurance departments, or Workers Compensation Boards.

Overall, we believe TPA's personnel are hard working, but struggling with technology issues including using an old, outdated version of the SYSTEM #2 System and poor telecommunications lines to VENDOR's COMPUTER SYSTEM System.

A recap of TPA's workflow follows.

First Report of Injury (FROI) is received via several methods, with the most common being an independent 1-800 service provided by an outside vendor named EOS. FROIs are also received directly from the insured by fax. Claims received by EOS are emailed, as a PDF file, to TPA. All FROIs received are verified for coverage by using an internal policy tracking system, or the COMPUTER SYSTEM System. TPA personnel do not always use COMPUTER SYSTEM System to confirm coverage because of slow, and in some cases extremely slow, response time. TPA personnel occasionally use an independent internal policy tracking system. A new position, and workflow procedure, was implemented as of DATE to follow-up, and diary, claims received where the policy data was inconsistent with the claim being reported. Valid claims are entered into an old, 16-bit version of SYSTEM #2. This system is used to supply claim reports, including loss runs extracts in Excel, to INSURANCE COMPANY and VENDOR.

Key Concerns include an old conversion from SYSTEM #1 to SYSTEM #2, the current SYSTEM #2 Database / System, lack of formalized financial account and system reconciliations, claims booked to SYSTEM #2 before the DATE new procedure was implemented, and the current reporting mechanisms to VENDOR.

- SYSTEM Conversion to SYSTEM #2

Several years ago, TPA converted all claim data from the SYSTEM to the current version of SYSTEM #2. No one currently at TPA is able to verify the integrity of that data conversion.

- Current SYSTEM #2 Database / System

TPA is currently using an obsolete, non-supported version of the SYSTEM #2 System. Based upon the SYSTEM #2 System structure, claim reporting is often complicated, and data errors, like duplicate entries, can easily appear in reports.

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- Financial Reconciliation

The only true way to ensure that the SYSTEM #2 claim database is complete is to undertake an inception-to-date financial reconciliation of the bank account to the loss run. Today, the bank statements are reconciled to the checks issued, and outstanding checks are followed up on. The level of intensity of this follow up is outside of this initial project. Separately, the SYSTEM #2 System is updated by the transactions entered. As TPA has no manual checks, there has never been a Bank (Checking Account) to Book (Loss Run) reconciliation.

I requested this reconciliation to be completed by DATE.

- Claims booked prior to DATE

Today, TPA is aggressively confirming coverage. Further, TPA is now manually following up on claims and policy information to ensure that data entered into COMPUTER SYSTEM and SYSTEM #2 is reasonably correct. Data entered before this new procedure was implemented was not subjected to the same level of scrutiny.

- Reporting Mechanisms to VENDOR

TPA sends VENDOR three sets of reports, a check register, an inception-to-date loss run and a change report. The change report flags all claims that were touched in the SYSTEM #2 System during the past month; whether-or-not any of the claim data was actually updated. In addition, there is no reconciliation performed between these reports to ensure that all of the claim data has been properly reported.

VENDOR normally uses the change report to determine which claims need to be manually reviewed to determine if the COMPUTER SYSTEM claim system needs to be updated. All new reports and statistical changes are updated manually to the COMPUTER SYSTEM system.

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COMPANY (VENDOR)

VENDOR has historically been a regional Workers Compensation Insurance Carrier, that is a currently a subsidiary of COMPANY. The COMPUTER SYSTEM System was initially developed by SYSTEM #2' IT Department to support VENDOR efforts to internally manage this regional book of Workers Compensation claims.

VENDOR has no programmers, and depends upon SYSTEM #2' IT staff in CITY, STATE for development support. VENDOR does have a dedicated, onsite, LAN person to support hardware issues such as printers and routers.

The COMPUTER SYSTEM System has several very nice features, for managing claims. However, this is the first time the system has been used to record claims from other TPAs. Based upon conversations with experienced users, I was told that COMPUTER SYSTEM is written in FoxPro. This language has the ability to import data from other source. For example, an import feature for payments has been completed. Key concerns with the COMPUTER SYSTEM application follow:

- Lack of onsite, dedicated systems personnel.
- Lack of system documentation, such as data layouts or data dictionaries.
- Limited ability to import data from outside systems.
- Limited ability to export data or custom design reports. For example, a request to produce a claims listing from the COMPUTER SYSTEM resulted in a report listing only 60 percent of the claims. A second report was produced for the balance of the claims.
- Future growth of the Occucare account may exceed FoxPro's ability to properly manage the size of the database.
- Response time for the COMPUTER SYSTEM varies from slow, to extremely slow.
- An immediate need to move the COMPUTER SYSTEM application from FoxPro to a stronger database, such as Oracle.

Barbara Griffith, VENDOR Controller, set-up a conference call with Marc Best, SYSTEM #2' IT Manager located in CITY, STATE. During this call several things were discussed:

1. Marc discussed the current system upgrade from one server to six servers that is scheduled for DATE. Once this upgrade is complete, Marc believes that the system response time will improve significantly. Further, that the COMPUTER SYSTEM System should be able to handle 100 concurrent users.
2. We also discussed COMPUTER SYSTEM's ability to load data from outside sources, such as LARGE_TPA and TPA.

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3. Another item discussed was the need to develop an automated reconciliation. I am going to send NAME ([email](#)) an email with the current TPA claims, as an excel file. The purpose of this correspondence is to begin discussions about building an automated reconciliation, so Barbara Griffith can see variances, by claim by pay type, between TPA's latest loss run and the COMPUTER SYSTEM database.
4. The last item was the technology being used. COMPUTER SYSTEM was written in FoxPro, with enhancements using Visual FoxPro. Marc told me that discussions have taken place about moving the system to a stronger database platform, such as Sequel or Oracle, but no decisions have taken place.

I spent a day reviewing VENDOR's workflows, and a recap of those discussions follows:

VENDOR receives claim data, as excel files, from the TPAs, via INSURANCE COMPANY. VENDOR claim coders then attempt to update COMPUTER SYSTEM manually based upon the claims displayed on the change loss run. Separately, VENDOR receives weekly check registers from the TPAs, and automatically updates COMPUTER SYSTEM. On new claims, or claims with a significant number of reserve changes, VENDOR may try to load the claim data before the claim is booked. This significantly complicates VENDOR's workflow.

On the positive side, I am very surprised that the overall claim data is as close as it is. As difficult as things are, this account could be in much worse shape if VENDOR's staff were not as diligent as they are. However, the continuous manual entry of this much claim data, without proper I.T. support, is both exhausting and expensive. Unless this process changes, via additions to staff or automation, this process will deteriorate quickly.

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Plan for Error Correction

Currently, VENDOR produces several discrepancy reports for the various data errors, and a payment error report for payments that are not loaded to COMPUTER SYSTEM though the data import routine. These reports are produced via manually entries to Excel spreadsheets. A review of each type of error, along with the possible courses of action, including the recommended course of action, follows.

Financial Reconciliation

First and foremost, a new reconciliation process is immediately needed to determine the extent of all data errors and the size of the current out of balance conditions. This includes two critical steps. First, TPA's Financial Department needs to balance the Loss Escrow Bank Account to the SYSTEM #2 Loss Run. Than having VENDOR balance the weekly payment updates along with the monthly manual input to the COMPUTER SYSTEM database to the change in incurred for the month, along with balancing the complete COMPUTER SYSTEM claims database to the inception-to-date TPA Loss Run.

VENDOR process is complicated because checks are loaded though the payment import routine on weekly basis, while claims are entered manually in a batch process. For example, during my visit, 3 weeks of DATE payments we entered into COMPUTER SYSTEM before DATE or DATE claims were entered. This makes reconciliation against TPA's month end numbers impossible.

Payment Import Errors

VENDOR tracks payment updates that error out in the monthly process. A review of these transactions, that VENDOR considers to be in suspense, revealed payments on claims that need to be entered into COMPUTER SYSTEM, and claim transactions that should not be entered into COMPUTER SYSTEM. Two examples of claims on the Payment Error report that should not be booked to the COMPUTER SYSTEM system follow.

Claim # 29

The first example is a claim that is no longer displayed on TPA's inception-to-date loss run. At this point, I need complete financial reconciliation to ensure that TPA is currently reporting all claims to VENDOR. Once I determine that that TPA is reporting all the claims, than we can build a new procedure with VENDOR to balance to current reported information. For example, claim # 29, TPA submitted a significant number of payments to VENDOR in 1998. TPA has since deleted this claim. This may have occurred by error, either by reassigning the claim to another insurance carrier other than INSURANCE COMPANY, or by changing the claim number. Once we confirm that TPA properly deleted this claim, than VENDOR should stop entering payments for this claim into the COMPUTER SYSTEM System. The following is cut and pasted from the Excel payment error report.

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Check #	Issue Date	Claim #	Claimant	Pay. Type	Check	Payee	Check Amount	Import file	Client
18091	08/05/19 98	29	NAME	PT	C	NAME	\$1,365.40	c0898	Not on DATE loss run

Claim # 111

The second example is claim number 111, which has a \$420.93 payment on the Payment Error Report. However, a review of the COMPUTER SYSTEM System reveals that this payment has already been recorded. Further, a comparison of the information on the Payment Error Report to the TPA loss run shows that the error is actually a \$420.93 credit, for a Workers Compensation Deductible recovery. As VENDOR is only attempting to record the gross claims before the Workers Compensation Deductible transaction is processed, this entry should not be loaded to COMPUTER SYSTEM.

The following is cut and pasted from the Excel Reports:

Check #	Issue Date	Claim #	Claimant	Pay. Type	Check	Payee	Check Amount	Import file	Client
24246	07/27/19 98	111		ME DDE D	C	NAME	\$420.93	RE0713 00	

Claim #	Total Paid	Claimant Name	Status	Ind Paid	Medical Paid	Expense Paid	Rehab Paid
111	420.93	NAME	D	0.00	420.93	0.00	0.00

Options for correcting the Payment Import Errors are:

1. Undertake a detailed review of the larger dollar errors, and compare the information against TPA's Inception-to-Date Loss Run to determine which transactions need to be entered into COMPUTER SYSTEM.
2. Continue the current process, of VENDOR publishing the error waiting for INSURANCE COMPANY's instructions on how to proceed.
3. Prioritize the list by age, and work the oldest transactions first.

Recommended Option is # 1.

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Financial Errors in COMPUTER SYSTEM

In addition to the Payment Import Error Report, on the discrepancy report, there are two additional types of errors that are financial in nature. The first is error code 12, “new reserves less than payments made”. The second is error code 13, “can’t close claim reserves remaining”. These two error types account for 5,149 claims, or over 60 percent of the errors on the discrepancy report.

Upon review, I found cases where a claim on the discrepancy report is no longer on TPA’s Inception-to-Date Loss Run, and therefore the payment transaction should not be entered into COMPUTER SYSTEM. I also found cases, where an entry is on the payment error missing because another financial entry is not in the COMPUTER SYSTEM System, and is not on the discrepancy report.

At this point, I am not sure why these payment entries were not updated via previous Payment Import updates. One possibility that needs to be researched is that some payments made by TPA, such as bulk payments for Medical Bill Review are not always included on the check register given to VENDOR. Therefore, the claim in COMPUTER SYSTEM has a remaining outstanding reserve, and VENDOR personnel cannot process a close claim transaction (error code 13, can’t close claim, reserves remaining).

I am currently looking at the possibility of creating a payment update file to be loaded to COMPUTER SYSTEM System via the existing payment import routine. If I am unable to create this payment file, VENDOR will need approximately 300 hours to manually update COMPUTER SYSTEM for these missing transactions.

Options for correcting the Financial Errors in COMPUTER SYSTEM are:

1. Upon completion of TPA’s Financial Reconciliation, undertake an attempt to perform an independent, electronic reconciliation of TPA’s Loss Run to the COMPUTER SYSTEM database, highlighting variances, and creating transactions to be feed into COMPUTER SYSTEM’s Payment Import Routine. Given the lack of current reconciliation, differences in claim number structure, and changes to past data, this process is expected to be less than 100%
2. Upon completion of TPA’s Financial Reconciliation, undertake an attempt to perform an independent, electronic reconciliation of TPA’s Loss Run to the COMPUTER SYSTEM database, highlighting variances. Larger variances would than be worked manually.
3. Conduct a complete, manual financial match of the COMPUTER SYSTEM claim data to the TPA Loss Run. In effect, eliminating the use of the change loss run by VENDOR, and replacing this with the Inception-to-date loss run.

Recommended Option is #1, than #2. First, book what we can electronically, than conduct a second reconciliation, and manually update the claims with the larger variances.

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NCCI Classification Code

TPA has reported 2,025 claims where the NCCI code did not match the policy information in COMPUTER SYSTEM at the time the of claim entry.

Options for correcting the NCCI Classification Code Error in COMPUTER SYSTEM are:

- 1 Send these claims back to the TPA Claims Department for correction.
- 2 Work with TPA Underwriting to determine if TPA's claims department should recode the claim, or if TPA Underwriting should endorse the claim
- 3 Have VENDOR pick the best code currently on the policy in COMPUTER SYSTEM, and flag these entries for Premium Audit to review.

Recommended Option is #3. The best action is #2. However, practically, asking TPA Underwriting to pull, and review these policies are not possible under current timeframes.

Errors in Statistical Coding

The discrepancy report prepared by COMPUTER SYSTEM identified 121 statistical coding errors dealing with Type of Injury, Cause of Injury and Body Part. Upon review, I determined that the claim coding tables used for these codes were not the same. For example, TPA has a Nature of Injury Code – 12, Disfigurement that is not valid in COMPUTER SYSTEM's system as the code is no longer used by NCCI.

Options for correcting these Statistical Coding Errors are:

- 1 Have VENDOR pick the best code currently available in COMPUTER SYSTEM
- 2 Coordinate the use of codes between TPA and VENDOR so that all parties only use the codes currently supported by VENDOR.
- 3 Continue the current process, of VENDOR publishing the error waiting for INSURANCE COMPANY's instructions on how to proceed.

Recommended Option is #2 to begin a process to coordinate claims coding procedures with TPA to eliminate future errors. Then, implement Option #1 to have VENDOR fix the existing problems.

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Changed Policy

On COMPUTER SYSTEM's discrepancy report, they have 32 claims for error code #4, where the Policy # differs on Loss Run than in COMPUTER SYSTEM. As TPA must have the ability to correct (change) a policy number on a claim, and the COMPUTER SYSTEM system allows for such updates, VENDOR should update COMPUTER SYSTEM for these changes.

Claim # Different in COMPUTER SYSTEM

There are 39 claims, with error code 01, claim # Different in COMPUTER SYSTEM. VENDOR simply needs to update the claim number in COMPUTER SYSTEM if the Claimant and Date of Loss are the same. In at least one case, the Date of Loss is different, and VENDOR needs to enter a new claim into COMPUTER SYSTEM.

Policy Number

There are 70 claims, where VENDOR has a policy number issue with TPA. Specifically, these are error Code 02, Policy # does not exist in COMPUTER SYSTEM and error Code 03, Policy # in quote status in COMPUTER SYSTEM.

I will follow up with TPA Claims to ensure that a proper claim number has been assigned to these claims. If the policy number proves to be valid, I will check on how far TPA's Underwriting is on coding the policy in COMPUTER SYSTEM.

Policy Number Updates

Error code 04, Policy Number different in COMPUTER SYSTEM

There are 124 claims where VENDOR needs to update the policy number on the claim in COMPUTER SYSTEM. Estimated time to perform this update is 6 hours.

Valid DOL, State Location

There are 683 claims where I have to follow-up with TPA Underwriting to confirm coverage. Specifically, the first error is the state is not on the policy (error code 06, Location state missing from loss run or unavailable in COMPUTER SYSTEM). The second error, is where the date of loss is outside of the policy effective – expiration dates (error code 05, date of Loss on claim is outside policy period in COMPUTER SYSTEM).

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Other Errors

VENDOR is researching 25 other, miscellaneous errors. Once the above errors are corrected, I will look at these small, miscellaneous issues.

Unit Statistical System

Once the claim data flows from TPA to VENDOR and is entered into the COMPUTER SYSTEM system, the loss information is ready to be filed to NCCI. The loss information combined with the policy information along with updates from Premium Audit is the basic components of the Unit Statistical Report System. However, this initial report deals with the data flow from TPA to COMPUTER SYSTEM, and does not incorporate the accuracy of Unit Statistical system, or the information being reported to NCCI.

Other TPAs

Currently, COMPUTER SYSTEM has claim data from several TPAs besides TPA. This review only included claims where TPA is the TPA.

Recommended Timeframes for Error Correction

Several steps are needed to correct the data INSURANCE COMPANY is reporting via the Unit Statistical System.

1. TPA must provide a reconciliation of the Bank Statement (Checking Account) to the SYSTEM #2 Loss Run. TPA is currently working with a DATE date for completing this step.
2. VENDOR must complete the entry of the DATE claim data. My initial recommendation to complete this entry by DATE, though the use of overtime, has been put on hold. Without overtime, VENDOR will not complete this step until DATE.
3. There are 753 claims at TPA that need to be reviewed. TPA is currently expecting that the review of these claims will begin on DATE, and this review should be completed prior to VENDOR finishing their input of the DATE claim data.

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4. Begin discussions with SYSTEM #2' IT staff to determine the cost associated with providing VENDOR with reasonable programming support. In my opinion, until VENDOR has dedicated programming resources, conversations about automating this process are a waste of time.

If INSURANCE COMPANY has not already had these conversations with SYSTEM #2 this process can begin by my sending Name ([email](#)) an email with the current TPA claims, as an excel file. The purpose of this correspondence is to begin discussions about building an automated reconciliation.

5. VENDOR could dedicate the week of DATE to reconciliation and error correction.