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July 22, 2013

John Gleba, FCAS, MAAA, FCA
200 North Second Street
Madison, Georgia 30650

RE: AUDIT REPORT

State of Vermont Self-Insured Program – *WC and GL*

Audit Dates: July 15 - 18, 2013

Dear Mr. Gleba:

We are pleased to provide this report following our audit of the State of Vermont's Self-Insured Program consisting of workers compensation and liability claims. Mr. Gleba made the arrangements for Bill Duchac, Manager of the Office of Risk Management for the state of Vermont, and me to discuss the program and make the necessary preliminary arrangements for the audit.

Mr. Duchac and I discussed the program briefly. I was advised that there were approximately 400 open workers compensation claims and approximate 200 open liability claims. In order to arrive at an appropriate audit sample, we agreed on reviewing open claims with dates of loss from 2004 to the present. For WC, we requested a list of open claims with incurred values greater than \$50,000. For liability claims, we requested a list of open claims with incurred values greater than \$10,000.

Working with Lisa DeForge, Workers' Compensation and Injury Prevention Manager, Agency of Administration (Office of State Employee Workers' Compensation and Injury Prevention), we received four lists:

- Workers Compensation: we received two lists: one for open claims (incurred values greater than \$50,000) and the other consisted of closed claims for the period from 2004 to the present. A total of 86 open claims were on the excess of \$50,000 incurred list.
- Liability: we received two lists: one for open claims (incurred values greater than \$10,000) and the other consisted of closed claims for the period from 2004 to the present. A total of 36 open claims were on the excess of \$10,000 list.

We were also provided with some information on Vermont Workers Compensation and a couple of Organization Charts. Included with the report is the “Agency of Administration” chart, along with the chart for the “Office of State Employee Workers’ Compensation and Injury Prevention”, managed by Lisa DeForge and the “Office of Risk Management”, managed by Bill Duchac.

We will first discuss the Workers Compensation portion of the audit and then we will discuss the Liability claims.

AUDIT SAMPLE

Workers Compensation

Out of the 86 open workers compensation claims, we selected 42 for review or 48% of the claims with incurred values greater than \$50,000. The selected claims represent the higher exposure/incurred types, claims involving permanent impairment ratings, and loss time claims where the medical component was significantly affecting the bottom line. We included a couple of closed files and files that had recently been re-opened. Please refer to the State of Vermont Workers Compensation – Audit List (**Exhibit #1**). We also included, in the sampling, claims handled by the various indemnity adjusters on staff and legacy type claims handled by the Senior Adjuster, Kristie Farnham, etc. The plan was to review claims handled by the entire staff as well as high exposure claims.

It was refreshing to see that medical case managers (MCMs) were assigned on all cases and not just on cases involving complex medical situations and ongoing loss time claims; they were assigned on medical only claims as well. This practice contributes to the overall handling of the claim and ensures that treatment is causally related to the work related injury, reasonable and appropriate.

Our detailed conclusions and recommendations follow; however, we generally found that:

- There is a team effort in the handling of these claims. They are not just handled by the assigned claim adjuster. Any of the four Medical Case Managers, to include the Senior Medical Case Manager, Mary Lacaillade, has significant input in the claims. There is very good communication, as evident by the files reviewed, between the adjuster assigned to a claim and the MCM. MCMs make frequent contacts with the injured worker to ensure that treatment is causally related and necessary. On litigated claims, there is frequent communication between the adjuster and the assigned attorney.
- The Senior Adjuster handles all legacy claims, claims in which there is a formal hearing, high profile/political claims, traumatic brain injury claims or typically older claims in which there is advanced litigation involving annuities and Medicare Set-Asides (MSAs). The Senior Adjuster, together with the Senior MCM, handles older claims in which there are ongoing medical issues, continuing indemnity and difficulty permanency rating situations.

- There is considerable exchange of information and reserve discussion throughout the life of a claim, with periodic adjuster and MCM status reports, to include round table meetings, etc.
- The workers compensation claim staff uses IVOS, an AON Risk Management software product. IVOS houses all claim correspondence and contains all adjuster and medical case manager notes. Once you review a couple of files, it is relatively easy to navigate among the file directories and obtain information. It contains claimant specifics, employment information, as well as summaries pertaining to round table discussions, adjuster report summaries and MCM status reports. There is also a “Payment” tab as well as an “Outstanding Reserve” tab. I was advised that the State is in the process of considering another software product and all information will be moved from IVOS to the new database.
- Lisa DeForge holds weekly meetings with her staff; at these meetings they talk about specific claims in which there may be an issue worthy of discussion. Reserves and strategy, concerning future handling, are discussed.
- Reserves are closely watched and step laddering is infrequent. Reserves are evaluated whenever new information is received. We did find a few instances where, in my opinion, reserves required strengthening. We discussed these specific cases with the staff during our wrap-up meeting. These specific files will be discussed later in the report. There were also a couple of instances in which we felt reserves could be decreased. These are also mentioned later in the report.
- Settlements are routinely pursued by the claim adjusters and MSAs are considered when appropriate, in order to conclude the medical component of these claims.
- Prior accidents are investigated; apportionment and allocation are explored. Bruce Chenal, WC Administrator, handles subrogation as respects third party tortfeasors.

We used the Audit List (**Exhibit #1**) and entered the paid and incurred information as of the day of the audit, using financial summaries provided by Lisa DeForge for each of the files reviewed, and compared these financials to the paid and incurred figures as of December 2012 initially provided. The dollar values comparisons are as follows:

As of December 2012

Paid: \$3,352,147 Incurred: \$7,413,329

As of July 15, 2013

Paid: \$4,252,062 Incurred: \$8,561,660

During this period (December 2012 through July 2013) the incurred increased by 15.5% when you compare the \$8,561,660 (as of July 2013) to \$7,413,329 (as of December 2012). For the same period, the paid values increased by 26.8% when you compare the \$4,252,062 to the \$3,352,147.

We had a wrap-up meeting with Lisa DeForge and her staff. They were receptive to my comments on the files indicated above, concerning reserves and strategy for continued handling. I recommended the adding of a separate report to the database (housed under a separate tab) that would contain a summary of the pertinent facts of a claim and provide comments as to intended disposition and strategy. This information is already in the database, but in different areas/under different tabs. The report should be updated as new information is received. This idea was well received.

Liability

Of the 36 open liability claims, we selected and reviewed 8 claims or 23% of the claims with incurred values greater than \$10,000. We also reviewed one additional claim per Bill Duchac's request. We will provide a summary of this file in this section. The Liability staff consists of Bill Duchac and Lisa Peduzzi, a licensed liability adjuster. Litigated claims are handled by the Assistant Attorney General's office. A meeting was arranged and I met the various attorneys that handle these claims. I also discussed a couple of claims with Bill Duchac and met Lisa Peduzzi on Thursday, the last day of the audit.

Our detailed conclusions and recommendations follow; however, we generally found that:

- The IVOS database is not used with the same degree of consistency and regularity as found on the workers compensation claims. There is some information in the database, but not sufficient enough to evaluate these claims for reserve adequacy.
- Much of the communication (in terms of emails between the various attorneys handling the claims and Bill Duchac) are housed in Bill Duchac's Outlook, under folders for each of the claims. I became aware of this Thursday morning. For future reference, I asked Bill to have these emails printed for each claim; this would provide details regarding liability and damages and thought processes required for claim evaluation. Consideration should be given to entering these emails in the Notepad section of IVOS as well.
- Bill Duchac's requests for an update, from the attorneys handling the claims, are answered within a reasonable time frame. Unfortunately, we did not find this level of responsiveness on claims in which Lisa Peduzzi requested a status. I recommended to Bill that he have a meeting with all of the attorneys and ask that they respond to Lisa's requests within an acceptable time frame. Bill was receptive to this recommendation.
- I recommended monthly and quarterly meetings with the Assistant Attorney General's office to discuss specific claims. Bill and Lisa, along with the attorney handling these claims, should be included in these meetings. A report should be completed and housed in the IVOS database and available for all to review.
- Bill attends all mediations, along with the handling attorney. He attends (on average) about one mediation per month. He has settlement authority of \$15,000. All settlements above this amount must be approved by either Michael Clausen, Deputy Secretary of Administration or Jeb Spaulding, Secretary of Administration.

- With a couple of exceptions, I did not find documentation in IVOS concerning reserve evaluations. Bill asked for my recommendation concerning obtaining evaluations for reserve purposes on some of the unique claims made against the State of Vermont. I recommended the use of Jury Verdict Research. For a service fee of \$100, you can use the database for a day and enter all of the information online, on a particular claim, and it will provide you with a jury verdict range. You could do this on several claims for a total fee of \$100.

CONCLUSION

- Workers Compensation - it is our opinion that the workers compensation claims are handled, monitored and closely watched. The adjusters and medical case managers handle these claims properly and take aggressive steps to settle claims when practical and possible.
- Liability – it is our opinion that a lot more is going on in the files that is documented in the IVOS database. The database is not used with regularity and therefore does not tell the complete story on these claims. As indicated earlier in the report, consideration should be given to having Bill Duchac's Outlook emails (involving the specific claims) copied and pasted into the Notepad section of IVOS.

It was a pleasure to work with Bill and Lisa. Their staffs were helpful as was the meeting with the attorneys that work for the Assistant Attorney General's office. They were extremely helpful during preliminary audit preparations and informative during the audit. After you have had the opportunity to review the report and attachments, please feel free to call should you have any questions or require additional information. We thank you for allowing us to handle this assignment on your behalf.

Sincerely,



Jose A. Crespo
Independent Consultant
DEVONSHIRE

