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7/11/05

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# Broward School District did not monitor workers' comp program, study claims

By Bill Hirschman  
Education Writer

June 22, 2005

The Broward School District's \$34 million-a-year system for handling workers' compensation claims is fraught with waste and a lack of oversight that costs taxpayers at least \$600,000 and maybe millions of dollars, an internal audit charges.

The handling of employees injured on the job and payment of lost wages "show[s] a fundamental breakdown in process and accountability," and has "substantive problems in nearly every process that was examined," according to an audit produced this month.



Examples of waste or botched oversight range from using a pediatrician to treat adults to paying a claims investigator for working more than 24 hours a day, three times in one month.

"It shows you what happens when you don't look at things over time," School Superintendent Frank Till said.

With 39,000 full-time and part-time teachers and other workers, the district is the second largest employer in the state

The district administration does a "woefully inadequate" job overseeing Gallagher Bassett Services Inc., the private firm hired to manage most of the program, the auditors wrote in a report that examines operations from 2002 through 2004

A consultant hired by the auditors said the potential savings are "conservatively in the millions" if changes are made, said auditor Ken Shaw.

Auditors are also sharply critical that Itasca, Ill.-based Gallagher Bassett subcontracts medical duties, such as selecting doctors and assigning patients, to another firm, CorVel Inc. of Irvine, Calif., but will not give the district a copy of the agreement to evaluate.

"It's our money that they're paying [CorVel]," said Patrick Reilly, the school district's executive director of Management/Facility Audits, which began the study in October as part of a regularly scheduled review of the district's departments.

The district hired Gallagher Bassett 17 years ago for the day-to-day management of employee claims.

Its current five-year-contract for nearly \$11 million runs through July 2006, with each year's fees paid up front.

Gallagher Bassett hired CorVel, which reaps a percentage from whatever firms it hires. It also gets a "case management fee" for every patient. Its fees in 2003-2004 were \$2.7 million.

Gallagher Bassett and CorVel officials did not return calls for comment.

While district officials disagree with some findings, they agree the audit brings up serious concerns and that a consultant should be hired to analyze problems.

"We agree that there are most likely opportunities to revise practices and hopefully save money," said Donnie Carter, the deputy superintendent who inherited the department about a year ago.

Jeff Moquin, director of the risk management department overseeing the operation, emphasized that the problems "are not unique to Broward" and that the county's system mirrors those of many other large employers.

"I think [the problems] are endemic of a workers' comp system that is struggling both statewide and nationwide," he said Wednesday.

The 200-page report contains scores of criticisms and 27 recommendations. It will be examined Thursday by the district's audit committee of volunteer parents and business leaders. If they concur, the School Board would discuss the report July 26.

Incomplete records, questionable accounting and a lack of medical expertise on the part of the auditors makes it almost impossible to gauge the money wasted, the report said.

But a major overhaul of the entire system, the primary recommendation of the report, would save at least \$600,000, auditors contend. Many other savings would likely result just from closer oversight, they said.

"It appears the district has taken a casual interest in the operations, resulting in higher direct costs including excessive medical, indemnity [lost time], litigation, monetary settlements, permanent impairment ratings and personnel costs associated with replacement or substitution for injured workers," auditors wrote.

In one example cited, the firm spends \$2 million a year to assign a field case manager to supervise nearly every case no matter how minor, a service that usually includes escorting patients to a doctor's office. Other workers' compensation companies usually reserve that level of service for catastrophic cases, said Reilly and Shaw. In one case, the district paid a case manager \$2,800 to accompany an asthma patient at the doctor's office.

The report focuses on the workers' compensation system, a creature of federal and state laws that requires employers to pay for the treatment of injured workers and salaries while employees are off work and future earnings if they are permanently disabled.

During 2003-2004, the district addressed 3,716 claims, meaning nearly one in 10 employees filed a claim.

Paid with tax dollars to a self-insured fund, the system provides medical services and hires lawyers to

fight what it considers unreasonable claims.

A major issue is the medical professionals hired to treat employees. One doctor, certified in internal medicine and pediatrics, turned in claims totaling \$220,786, but most of the treatment provided related to orthopedic issues.

Auditors chose five doctors at random from CorVel's list. One had four malpractice settlements since 1992. CorVel has only rejected two out of 1,200 doctors it uses, one for questionable service and one for demanding payment up front.

Additionally, referrals for physical therapy for specific patients were based not on a therapist's track record, location near the patient or expertise. Instead, therapists were chosen alphabetically, based on which firm was next on an approved list, auditors said.

CorVel also referred some patients to general practitioners rather than specialists who might have solved problems more quickly. Eventually, some patients' problems worsened until they needed much more serious and expensive treatments, such as surgery, the report contends.

The report questions the judgment of some doctors

In three of 100 cases chosen at random, employees asked doctors to send them back to work because they were financially struggling to live under the school system's benefits program, which grants injured workers two-thirds of their salary off the job. Two of the employees hurt themselves even worse when they returned to work, missing more time from the job. Auditors called it "professionally irresponsible."

The district might have to pay more for better-quality doctors, but it could save millions "because we won't be visiting them 20 times," Shaw said.

Overall, Superintendent Till said he wasn't surprised by the audit, but characterized results as "nothing bad, nothing criminal, but certainly some things you need to tighten up."

*Staff Writer Chris Kahn contributed to this report.*

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# Business Insurance

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## Gallagher settles compensation probe for \$27 million

By Sally Roberts  
May 18 17:25:00, 2005

ITASCA, Ill.—Arthur J. Gallagher & Co. will pay \$27 million in restitution to policyholders and reform its business practices to settle investigations by the Illinois attorney general and the director of insurance of Illinois related to its compensation practices, the Itasca, Ill.-based brokerage announced Wednesday.

No lawsuit was filed by the state authorities, and Gallagher admitted no wrongdoing or liability and is not required to issue an apology.

Under the terms of the settlement, Gallagher, the world's fourth largest brokerage, agreed to create a \$27 million fund for certain retail clients; to cease collecting contingent commissions on retail business; to disclose compensation for services; to provide enhanced business ethics training for employees; and to create a compliance committee of the board of directors.

In a statement, Illinois Attorney General Lisa Madigan said her investigation into Gallagher's compensation practices revealed that the brokerage accepted millions of dollars of contingent commissions from insurers in exchange for steering clients their way.

"Gallagher sought and obtained huge payments from insurers in return for steering them enough business to meet secret threshold targets," Ms. Madigan said in the statement. "Gallagher never should have accepted these payments without fully and clearly disclosing that these targets and payments created a potential conflict of interest between Gallagher and its clients."

Citing interoffice memos and internal e-mails, Ms. Madigan said her investigation found that Gallagher managers received personal bonuses when their branch offices helped hit contingent commission targets and that the brokerage accepted "hiring subsidies" from certain insurers. Under these undisclosed arrangements, some insurers would pay for the salaries of some Gallagher brokers in return for insurance business.

Last month, Gallagher set aside \$35 million to settle investigations related to its use of contingent commissions (*BI*, May 2). "We are pleased to have concluded this matter with both the Illinois attorney general and the Illinois director of insurance and we appreciate their professionalism," J. Patrick Gallagher, president and chief executive officer, said in a statement.

Gallagher's agreement follows similar settlements made by the world's three largest brokerages: Marsh & McLennan Cos. Inc., Aon Corp. and Willis Group Holdings Ltd.

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