



CITY OF CHICAGO  
OFFICE OF INSPECTOR GENERAL

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# Audit of the Department of Finance's Civilian Workers' Compensation Program Administration

July 31, 2024

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## Acronyms

COSO	Committee of Sponsoring Organizations of the Treadway Commission
DOF	Department of Finance
MCC	Municipal Code of Chicago
OIG	Office of Inspector General

## CHICAGO OFFICE OF INSPECTOR GENERAL



## Audit of DOF's Workers' Compensation Program Administration

The Chicago Department of Finance (DOF) operates the City Workers' Compensation Program ("the Program") through a contract with a third-party administrator. This represents a major improvement over the administration of the Program by the City Council Committee on Finance, under which it operated for decades with no oversight.

### DOF took over administration of the Program in 2019.

#### WHAT'S AT STAKE



The Program has more than 2,000 open claims expected to cost over half a billion dollars across their lifetimes, therefore cost reduction and efficient service are high priorities.

#### IMPROVED ACCOUNTABILITY

In 2019, the City hired the audit and advisory firm Grant Thornton to review the Program and identify potential patterns or instances of fraud, waste, and abuse.

OIG found that DOF has substantially implemented the corrective actions recommended by Grant Thornton.



#### INCREASED TRANSPARENCY



DOF also increased transparency into the Program by publishing the Program's annual report. DOF still needs to standardize reporting periods and ensure all required content is included.

#### OIG'S AUDIT CONCLUSIONS

- DOF's improvements should enable the City to reduce unnecessary costs and deliver more efficient service to employees injured while working.
- DOF should continue to identify and implement methods for maximizing the Program's efficiency and effectiveness.
- Considering the Program's historical lack of oversight, DOF should improve annual reporting procedures to regain public trust.

# I | Executive Summary

The Office of Inspector General (OIG) conducted an audit of the Department of Finance's (DOF) administration of the City's civilian Workers' Compensation Program ("the Program"). The City Council Committee on Finance ("the Committee") administered the City of Chicago's Workers' Compensation Program until 2019. Alderperson Edward Burke chaired the Committee for over 30 years. During this time, the Committee processed workers' compensation claims. In most municipalities, an executive department, rather than a legislative committee, manages workers' compensation. On January 2, 2019, Burke was charged with attempted extortion in a criminal complaint filed in the Northern District of Illinois; two days later, he resigned as chair of the Committee.<sup>1</sup> On January 23, 2019, the City transferred responsibility for the Workers' Compensation Program from the Committee to the Comptroller of DOF by amendment to the relevant Municipal Code of Chicago (MCC) provisions.<sup>2</sup> On February 1, 2019, the City hired audit and advisory firm Grant Thornton "to assist the City with a review of the [Workers' Compensation] Program to identify potential patterns or instances of fraud, waste, and abuse [...]."<sup>3</sup> Grant Thornton performed the review and issued its report on May 10, 2019. Grant Thornton's recommendations provided the starting point for OIG's performance audit of the Program.

The objectives of OIG's audit were to determine whether DOF,

1. implemented corrective actions recommended by Grant Thornton LLP in its 2019 report on the City's civilian Workers' Compensation Program; and
2. publishes an annual report on the activity of the Program, as required by Municipal Code of Chicago (MCC) § 2-32-1410.

## A | Conclusion

DOF operates the City Workers' Compensation Program through a contract with a third-party administrator. This represents a major improvement on the administration of the Program by the City Council Committee on Finance, under which it operated for decades with no oversight. DOF has substantially implemented the corrective actions recommended by Grant Thornton in 2019. DOF also fulfills the MCC requirement that it publish the Program's annual report, thereby increasing transparency into an operation with a significant budget. Given that the Program has more than 2,000 open claims expected to cost over half a billion dollars across their lifetimes, cost reduction and efficient service are high priorities. The improvements will enable the City to reduce unnecessary costs and deliver more efficient service to employees injured while working. Implementing these corrective actions has addressed some of the highest-risk areas. DOF, however, should continue to identify and implement methods for maximizing the Program's efficiency and effectiveness.

<sup>1</sup> On December 21, 2023, Burke was convicted on racketeering, bribery, and extortion charges. United States Attorney's Office, Northern District of Illinois, "Press Release: Former City of Chicago Alderman Convicted on Federal Racketeering, Bribery, and Extortion Charges," December 21, 2023, accessed May 6, 2024, <https://www.justice.gov/usao-ndil/pr/former-city-chicago-alderman-convicted-federal-racketeering-bribery-and-extortion>.

<sup>2</sup> MCC §§ 2-32-1400 and 2-32-1410.

<sup>3</sup> Grant Thornton LLP, "City of Chicago Workers' Compensation Program Final Report," May 10, 2019, 1, accessed July 25, 2023, <https://www.chicago.gov/content/dam/city/depts/dof/general/AuditofWorkersCompProgram.pdf>.

## B | Findings

OIG found that DOF has substantially implemented Grant Thornton's recommended corrective actions. Specifically,

1. DOF has implemented the fraud risk assessment corrective actions;
2. DOF has implemented the data analytics corrective actions;
3. DOF has partially implemented the corrective actions related to claims administration; and
4. DOF has not yet established a formal peer jurisdiction analytic program.

In addition, OIG found that DOF has published the Program's annual reports, as required by the MCC, but should standardize reporting periods and ensure all required content is included.

## C | Recommendations

OIG recommends that DOF continue to implement corrective actions addressing the recommendations made in Grant Thornton's 2019 report. Specifically, DOF should clarify its written procedures to ensure that Program staff,

- calculate the total amount of average weekly wage and temporary disability benefits within three business days of receiving a claim;
- capture recorded claimant statements for each claim, or document their attempts if they are unable to do so;
- complete the filing of first report of injury required under the Illinois Workers' Compensation Act, 820 ILCS 305/6 (2021);
- conduct and document a reserve analysis for all claims; and
- review claims adjusters' initial reviews and ongoing analyses of medical records.

Additionally, DOF should further develop its peer jurisdiction network by establishing a formal analytic program. Finally, DOF should develop a procedure with clear timelines and assigned responsibilities for publishing annual reports containing all information required by the MCC.

## D | DOF Response

In response to OIG's audit findings and recommendations, DOF provided written procedures designed to ensure compliance with Grant Thornton's recommendations and stated that it "has and will continue to direct" the third-party administrator to adhere to the procedures. Regarding the establishment of a formal analytical program, DOF stated it is preparing to hire a Workers' Compensation Analyst to "coordinate knowledge exchange with peer organizations." DOF also stated that it will begin publishing the Workers' Compensation Annual Report at approximately the same time each year with all information required by the MCC.

The specific recommendations related to each finding, and DOF's response, are described in the "Findings and Recommendations" section of this report.



## II | Background

Workers' compensation is a system of benefits paid by employers to employees who are injured on the job. The City of Chicago's Workers' Compensation Program is governed by Section 2-32-1400 of the MCC and the Illinois Workers' Compensation Act.<sup>4</sup> The Act requires most employers to pay the costs of their employees' medical care and financial losses resulting from work-related injuries. It also prescribes timelines for certain steps in the claims review and approval process. Some employers purchase workers' compensation insurance to cover legal expenses arising from claims while others self-insure. The City has chosen to self-insure; it evaluates its employees' claims and pays their benefits directly. In 2022, the City's Workers' Compensation Program paid \$73.5 million in claims. At the end of that year, the Program had 2,236 open claims, for which it held \$571.4 million in reserves.<sup>5</sup>

### A | Understanding Workers' Compensation

The Illinois Workers' Compensation Act requires employees and employers to document on-the-job injuries. This ensures that injured employees who qualify for benefits receive them and helps prevent disputes over legal liability. The benefits approval process is illustrated in Figure 1.

First, an injured employee should immediately receive any needed first aid. Then, the employer must report the injury as a workers' compensation claim, even if they dispute its validity. The employer gathers information documenting what occurred and submits it to the employer's insurer or workers' compensation administrator, who then determines whether the employee is entitled to compensation. If so, the employer pays any medical costs related to the injury, as well as lost wages until the employee either returns to work or reaches a settlement with the employer. At that point, the claim is closed.

Workers' compensation benefits cover two main categories: the costs of medical care for work-related injuries and compensation for lost wages. Figure 2 illustrates the types of claims that can include one or both of these benefits.

**Figure 1: Workers' Compensation Programs Follow the Same General Steps**



Injury happens on the job due to work duties. Employee receives medical attention if needed.



Employee/employer files incident report. Insurer determines if compensation benefits are appropriate.



Insurer either accepts or denies claim.



If accepted, employee goes through treatment plan and receives medical or indemnity payments.



Employee's condition stabilizes.



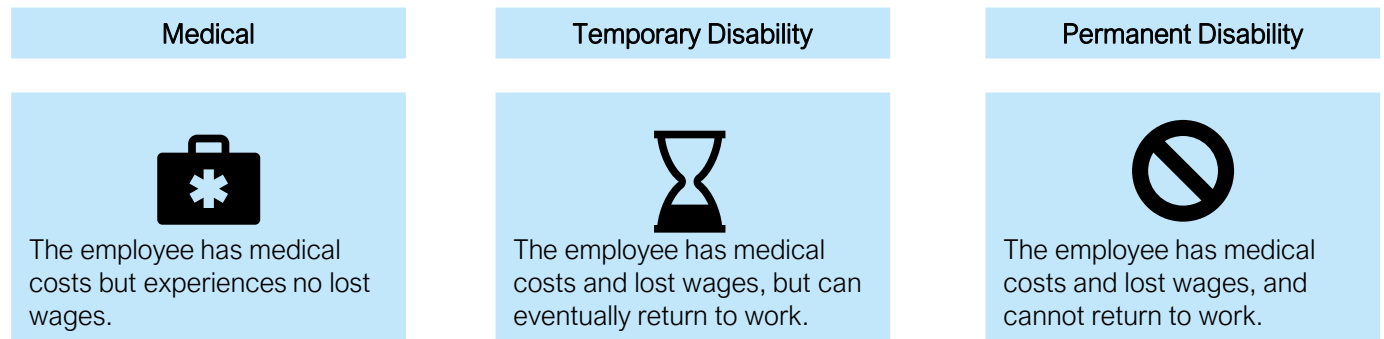
Insurer closes claim.

Source: OIG visualization

<sup>4</sup> 820 ILCS 305/1 *et seq.*

<sup>5</sup> City of Chicago, Department of Finance, "Annual Report: Workers' Compensation (2023)," August 8, 2023, 1-2, accessed October 17, 2023, [https://www.chicago.gov/content/dam/city/depts/fin/supp\\_info/Workers\\_Compensation/City\\_of\\_Chicago\\_Workers\\_Compensation\\_Report\\_08082023.pdf](https://www.chicago.gov/content/dam/city/depts/fin/supp_info/Workers_Compensation/City_of_Chicago_Workers_Compensation_Report_08082023.pdf).

Figure 2: Workers Compensation Claims May or May Not Include Lost Wages



Source: OIG visualization

## B | Program Administration and Oversight History

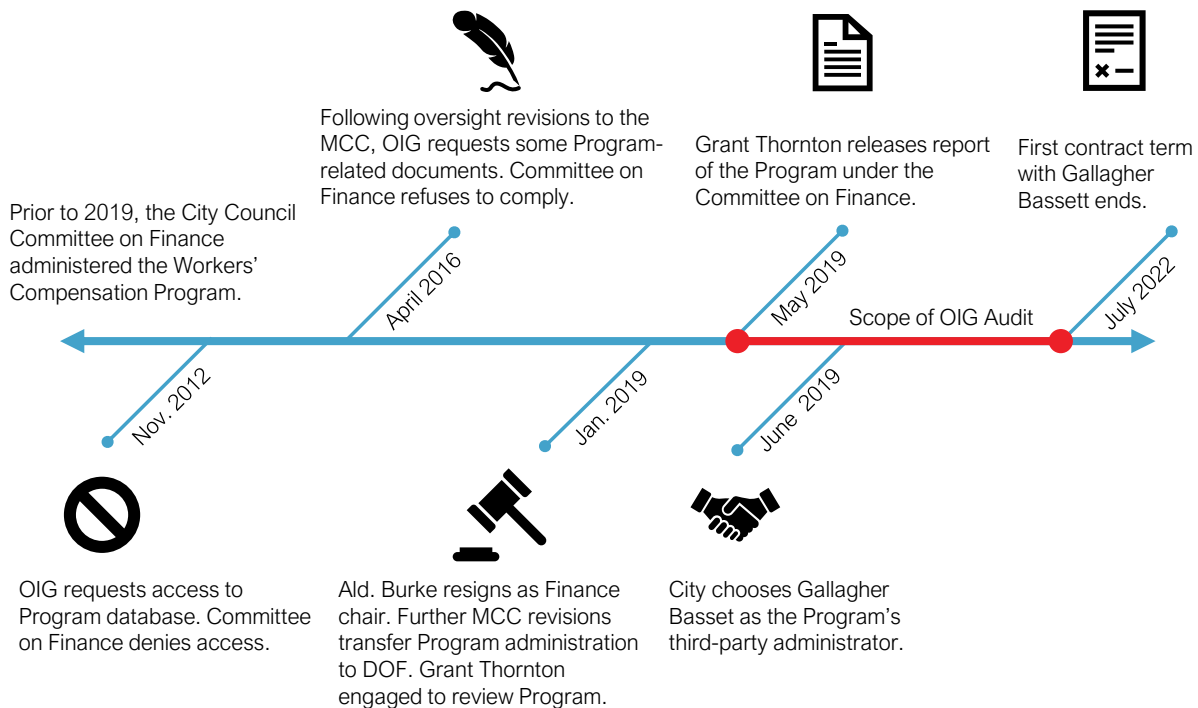
The City Council Committee on Finance administered the City of Chicago's Workers' Compensation Program until 2019. Alderperson Edward Burke chaired the Committee for over 30 years. During this time, the Committee processed workers' compensation claims. In most municipalities, an executive department, rather than a legislative committee, manages workers' compensation. In 2019, Mayor Lightfoot publicly stated that "a program of this size and significance ha[d] no business being controlled by a single member of the City Council—not to mention controlled without meaningful oversight, controls, or transparency."<sup>6</sup> She further stated that the Program "was undermanaged and lacked proper protocols—which pose[d] a disservice to our injured city employees as well as taxpayers."<sup>7</sup>

Likewise, until 2019 OIG did not have legal authority to audit the operations of the City Council. Because the Committee on Finance managed the Workers' Compensation Program for years with no independent oversight, its activities and outcomes were hidden from the public and the rest of City government. Beginning at least as early as 2012, OIG sought an opportunity to review the Program, in keeping with its mission. Figure 3 depicts a timeline of these efforts and changes to the Program's oversight that followed.

<sup>6</sup> City of Chicago, Office of the Mayor, Press Conference Announcing Reforms to Workers' Compensation Program, June 13, 2019, accessed February 26, 2024, [https://m.facebook.com/MayorLightfoot/videos/1063972563796093/?locale=ms\\_MY&\\_rdr](https://m.facebook.com/MayorLightfoot/videos/1063972563796093/?locale=ms_MY&_rdr).

<sup>7</sup> City of Chicago, Office of the Mayor, "Mayor Lightfoot Announces Reforms to Workers' Compensation Program," June 13, 2019, accessed February 26, 2024, [https://www.chicago.gov/city/en/depts/mayor/press\\_room/press\\_releases/2019/june/WorkersCompensationReforms.html](https://www.chicago.gov/city/en/depts/mayor/press_room/press_releases/2019/june/WorkersCompensationReforms.html).

Figure 3: The City has Increased Oversight of its Workers Compensation Program



Source: OIG visualization

In 2012, invoking its authority to review City programs, OIG requested access to the Workers' Compensation Program's database. The Committee on Finance rejected this request, citing the MCC's later-revoked exclusion of City Council from OIG's jurisdiction to investigate misconduct.

In 2016, members of Council proposed two revisions to MCC Chapter 2-56, which defines OIG's authority.<sup>8</sup> One proposal would have expanded OIG's jurisdiction to include the power both to investigate allegations of Council misconduct and to audit Council programs. A second proposal allowed only misconduct investigations. Council passed the second proposal.

On December 21, 2023, a federal jury convicted Burke on racketeering, bribery, and extortion charges.<sup>9</sup> On January 4, 2019, he resigned as chair of the Committee on Finance. On January 23, 2019, the City transferred responsibility for the Workers' Compensation Program from the Committee to the Comptroller of the Department of Finance (DOF) by amendment to the relevant MCC provisions.<sup>10</sup> This brought Workers' Compensation within OIG's audit jurisdiction, which would not be expanded to include the operations of City Council until later that year.<sup>11</sup> The ordinance that

<sup>8</sup> Chicago City Council, "Journal of the Proceedings," February 10, 2016, Vol. 1, p. 19348, [https://chicityclerk.s3.us-west-2.amazonaws.com/s3fs-public/document\\_uploads/journals-proceedings/2016/2016\\_02\\_10\\_VI\\_VII\\_0.pdf](https://chicityclerk.s3.us-west-2.amazonaws.com/s3fs-public/document_uploads/journals-proceedings/2016/2016_02_10_VI_VII_0.pdf).

<sup>9</sup> United States Attorney's Office, Northern District of Illinois, "Press Release: Former City of Chicago Alderman Convicted on Federal Racketeering, Bribery, and Extortion Charges," December 21, 2023, accessed May 6, 2024, <https://www.justice.gov/usao-ndil/pr-former-city-chicago-alderman-convicted-federal-racketeering-bribery-and-extortion>.

<sup>10</sup> MCC §§ 2-32-1400 and 2-32-1410.

<sup>11</sup> In July 2019, Council introduced legislation removing limitations that OIG could only investigate allegations against Council members, thus authorizing OIG to audit Council programs. Council enacted the legislation in August 2019. Chicago City Council, "Journal of Proceedings," July 24, 2019, Vol. 1, p. 2397, [https://chicityclerk.s3.us-west-2.amazonaws.com/s3fs-public/document\\_uploads/journals-proceedings/2019/2019\\_07\\_24\\_VI\\_VII\\_2.pdf](https://chicityclerk.s3.us-west-2.amazonaws.com/s3fs-public/document_uploads/journals-proceedings/2019/2019_07_24_VI_VII_2.pdf).



effected the transfer of responsibility for the Program required DOF to produce an annual report detailing workers' compensation claims and benefits paid in the preceding year, and to post the report in a "prominent public location" on its website.

On February 1, 2019, the City hired audit and advisory firm Grant Thornton "to assist the City with a review of the [Workers' Compensation] Program to identify potential patterns or instances of fraud, waste, and abuse [...]."<sup>12</sup> Grant Thornton performed the review and issued its report on May 10, 2019. As discussed in the Findings section below, Grant Thornton's recommendations provided the starting point for OIG's performance audit of the Program.

On June 13, 2019, the City announced that claims services provider Gallagher Bassett would be the Program's third-party administrator. The original contract with Gallagher Bassett ran from August 1, 2019, through July 31, 2022. The parties have extended the contract through December 31, 2024.

## C | Grant Thornton Report

Grant Thornton's 2019 work included:

- "1) The analysis of workers' compensation benefits administered in 2017 and 2018 to assist the City in determining whether the Program:
  - a. provided workers' compensation benefits in compliance with governing statutes, rules, and policies;
  - b. workers' compensation costs are in line with comparable peer jurisdictions; and
  - c. provided workers' compensation benefits indicative of [fraud, waste, and abuse] by employee claimants, medical providers, and law firms.
- 2) An assessment of the Program's operations and processes, including any fraud prevention and detection processes and protocols."<sup>13</sup>

The Grant Thornton report is organized into four areas:

- Fraud risk assessment
- Data analytics
- Claims testing
- Peer jurisdictional analysis

Grant Thornton found serious flaws in the Program. Specifically, it reported,

[T]he City's Workers' [Compensation] Program is in need of substantial improvement to operate more effectively as well as prevent and detect potential fraud, waste, and abuse [. . .]. Of the workers' compensation claims we tested, the majority were not in compliance with governing statutes, rules, or the Program's internal claim administration guidelines in varying degrees of severity. Contributing factors to these results included the Program not maintaining its operations based on commonly accepted workers' compensation industry best practices and an inadequately trained workforce. In addition, the Program likely did not

<sup>12</sup> Grant Thornton LLP, "City of Chicago Workers' Compensation Program Final Report," May 10, 2019, 1, accessed July 25, 2023, <https://www.chicago.gov/content/dam/city/depts/dol/general/AuditofWorkersCompProgram.pdf>.

<sup>13</sup> Grant Thornton, "Workers' Compensation Report," 1.

consistently provide workers' compensation benefits in compliance with governing statutes, rules, or the Program's internal claim administration guidelines.<sup>14</sup>

Grant Thornton recommended that the City "evaluate whether it should invest the resources to substantially improve the Program to enhance its control environment and its operations, or whether the City should invest the resources to outsource the Program's administration of workers' compensation benefits to a third party that specializes in the administration of workers' compensation benefits." It also issued specific recommendations to improve administration. These focus on the basic components needed for a quality workers' compensation program, including training, documentation, and repeatable processes. Grant Thornton recommended improving fraud management policies, implementing data analytics, improving claims administration, and developing a formal peer jurisdiction network. Because DOF now administers the Program, it bears responsibility for implementing corrective actions based on these recommendations.

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<sup>14</sup> Grant Thornton, "Workers' Compensation Report," 4.

## III | Objectives, Scope, and Methodology

### A | Objectives

The objectives of the audit were to determine whether DOF,

- implemented corrective actions recommended by Grant Thornton LLP in its 2019 report on the City's civilian Workers' Compensation Program; and
- publishes an annual report on the activity of the Program, as required by MCC § 2-32-1410.

### B | Scope

This audit focused on DOF's implementation of corrective actions related to recommendations made by Grant Thornton in its 2019 Report on the City of Chicago Workers' Compensation Program. Specifically, the scope included the Workers' Compensation Program for non-federally funded civilian employees. DOF does not evaluate claims for sworn police and fire personnel, nor does it administer any part of the federally funded civilian or aviation employee programs. OIG therefore scoped those claims out of the audit. The audit also focused on MCC § 2-32-1410, which requires DOF to publish an annual report on workers' compensation. The scoped time frame for claims administration begins with the issuance of the Grant Thornton recommendations on May 10, 2019 and extends through the end of Gallagher Bassett's first contract on July 31, 2022.

### C | Methodology

To understand the Grant Thornton report and its recommendations, OIG spoke with the Department of Law about the City's agreement with Grant Thornton and the services it provided.

To understand Gallagher Bassett's data systems, OIG reviewed the procedures for transferring data from the Committee on Finance's legacy system and observed a walkthrough of Gallagher Bassett's RISX-FACS claims management system. Further, OIG examined data exports and assessed the reliability of that data prior to testing.

To determine whether DOF implemented corrective actions related to the fraud risk assessment recommendations, OIG examined Gallagher Bassett and DOF policies and procedures and interviewed DOF and Gallagher Bassett personnel.

To determine whether DOF implemented data analytics corrective actions, OIG reviewed examples of data analytics included in Gallagher Bassett's regular Program reports to DOF, examined Gallagher Bassett's contract, assessed various communications between DOF and Gallagher Bassett, and corresponded with DOF personnel.

To determine whether DOF implemented claims testing corrective actions, OIG reviewed the ten categories of claims administration activities subject to Grant Thornton's recommendations. Based on factors such as relevance to benefit delivery, the Program's past performance as observed by Grant Thornton, and whether the case was applicable, OIG chose the following six categories for its analysis:

- File administration
- Initial file review
- Benefit delivery
- Medical review
- Forms
- Closure<sup>15</sup>

OIG then interviewed DOF and Gallagher Bassett personnel to identify the relevant data fields in its claims management database, reviewed Gallagher Bassett's contract and DOF's special handling instructions to Gallagher Bassett resolution managers, and selected a sample of claims for deeper analysis. To select the sample, OIG stratified 3,048 claims opened during the period of inquiry into low, medium, and high dollar amounts for total paid over the lifetime of the claim. From each of those three strata, OIG randomly selected 32 claims for a total of 96 claims in a stratified sample. OIG based the sample size on the expectation of a 95% confidence level and 10% margin of error. However, due to the inapplicability of some claims against tests, OIG ultimately did not extrapolate the results to the full population. Further, OIG selected five claims in a targeted sample based on four high-risk characteristics of interest:

- Reported more than a year after the accident date
- Departments with low accident frequency
- High total paid amount
- Individuals with a large number of claims

OIG then tested the 101 selected claims against various elements of claims testing compliance, allowing claims to drop out of each test when not applicable. For example, if a claim was initiated before DOF began administering workers' compensation, it was not tested for the initial file analysis as part of initiating a claim. OIG reports the results of testing only for those claims that were applicable. Where possible, OIG tested outcomes of actual claims in Gallagher Bassett's database. However, some recommendations spoke directly to creating policies and procedures as the necessary corrective action; in these cases, OIG reviewed Program documentation such as the Gallagher Bassett contract and DOF's special handling instructions. OIG also made small modifications to some test parameters, as compared to Grant Thornton's recommendations. For example, where Grant Thornton recommended completion of a procedural step within 48 hours, OIG tested for its completion within 2 business days. Based upon a review of the quantitative and qualitative results for each recommendation, OIG determined an overall implementation status for each category.

To determine whether DOF implemented the peer jurisdiction corrective actions, OIG interviewed DOF about its peer jurisdiction practices and efforts to contact peer jurisdictions.

To determine whether DOF published the annual report required by MCC § 2-32-1410, OIG monitored DOF's public web page and corresponded with DOF personnel about policies and plans related to publishing the report. To assess the timeliness of the report's publication, OIG examined web page metadata.

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<sup>15</sup> OIG did not analyze implementation of corrective actions categorized as Subrogation, Litigation, Reserves, or Miscellaneous.

## D | Standards

OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG 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. OIG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## E | Authority and Role

The authority to perform this audit is established in the City of Chicago Municipal Code § 2-56-030, which states that OIG has the power and duty to review the programs of City government in order to identify any inefficiencies, waste, and potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of City programs and operations.

The role of OIG is to review City operations and make recommendations for improvement.

City management is responsible for establishing and maintaining processes to ensure that City programs operate economically, efficiently, effectively, and with integrity.

## IV | Findings and Recommendations

### Finding 1: DOF has Substantially Implemented Grant Thornton's Recommended Corrective Actions for the City's Civilian Workers' Compensation Program.

DOF has taken substantial steps towards implementing the corrective actions outlined in the Grant Thornton report but could further standardize the administration of the Workers' Compensation Program.<sup>16</sup> DOF's 2021 and 2022 Workers' Compensation Annual Reports show reductions in new claims, time to claim closure, and lost workdays as compared to the Program's metrics under the management of the Committee on Finance.<sup>17</sup> The City's third-party administration contract with Gallagher Bassett aided these improvements. The contract defines service level agreements and assesses penalties if Gallagher Bassett does not meet those levels. The Program is also intended to leverage Gallagher Bassett's experience and benefit from its proprietary workers' compensation policies and procedures. Finally, DOF provides additional special handling instructions for Gallagher Bassett's administration of certain aspects of the Program.

#### A | DOF Has Implemented the Fraud Risk Corrective Actions.

Grant Thornton used five principles from the COSO Fraud Risk Management Guide to assess the maturity of the Workers' Compensation Program under the Committee on Finance.<sup>18</sup> Its report described the Program's fraud risk processes during that time as "Ad Hoc," reflecting the lowest maturity level.<sup>19</sup> This is because the Program lacked documented fraud risk management processes and antifraud activities were performed "in an ad-hoc, reactive manner." Grant Thornton therefore made recommendations for increasing the maturity level of the Program's antifraud measures.

<sup>16</sup> The Grant Thornton report is the culmination of its engagement on this matter. The City has not contracted with Grant Thornton to further assess the status of corrective actions.

<sup>17</sup> City of Chicago, Department of Finance, "Annual Report: Workers' Compensation (2021)," September 30, 2022, 1-2, accessed September 29, 2023, [https://www.chicago.gov/content/dam/city/depts/fin/supp\\_info/Workers\\_Compensation/City\\_of\\_Chicago\\_Workers\\_Compensation\\_Report\\_09302022\\_vFINAL.pdf](https://www.chicago.gov/content/dam/city/depts/fin/supp_info/Workers_Compensation/City_of_Chicago_Workers_Compensation_Report_09302022_vFINAL.pdf); Department of Finance, "Annual Report: Workers' Compensation (2022)," 1-2, accessed November 27, 2023, [https://www.chicago.gov/content/dam/city/depts/fin/supp\\_info/Workers\\_Compensation/City\\_of\\_Chicago\\_Workers\\_Compensation\\_Report\\_08082023.pdf](https://www.chicago.gov/content/dam/city/depts/fin/supp_info/Workers_Compensation/City_of_Chicago_Workers_Compensation_Report_08082023.pdf).

<sup>18</sup> COSO refers to the Committee of Sponsoring Organizations of the Treadway Commission, an organization that studies the causes of fraudulent financial reporting and publishes guidance to deter it. This guide is a commonly used set of principles to manage fraud risk. See <https://www.coso.org/frauddeterrence>.

<sup>19</sup> Grant Thornton, "Workers' Compensation Report," 10. See Appendix A for a visual representation of Grant Thornton's Enterprise Anti-Fraud Maturity Assessment Model.



DOF has since implemented Grant Thornton's recommended corrective actions related to fraud risk. Figure 4 gives the implementation status of each corrective action.

**Figure 4: DOF Implemented Each of Grant Thornton's Recommendations Related to Fraud Risk**

COSO Principle	Grant Thornton Recommendation	Status of Corrective Action
1) Fraud Risk Governance	Establish a fraud risk management policy for workers' compensation.	Implemented
	Develop an antifraud training and track when employees receive that training.	Implemented
	Promote fraud awareness initiatives.	Implemented
2) Fraud Risk Assessment	Develop and implement a recurring fraud risk assessment.	Implemented
3) Fraud Control Activities	Periodically update the claims management guide, which was used by the Committee on Finance to administer the Workers' Compensation Program.	Implemented
	Incorporate the use of proactive data analytics.	Implemented
	Develop policies and procedures with documented fraud control activities.	Implemented
	Periodically review contracts with third parties.	Implemented
4) Fraud Investigation and Corrective Action	Develop and implement an anonymous fraud tip hotline.	Implemented
	Document policies and procedures for investigations.	Implemented
5) Fraud Monitoring Activities	Incorporate analytics and establish appropriate measurement criteria.	Implemented
	Consider factors for setting the scope and frequency of evaluations.	Implemented
	Evaluate, communicate, and remediate deficiencies.	Implemented

Source: OIG visualization

DOF ensured that Workers' Compensation Program staff implemented policies and procedures to reduce fraud risk. DOF has also set up a fraud tip hotline, antifraud training, and policies and procedures for investigations. With these corrective actions, the Program's fraud risk management process is more consistent and repeatable.

## B | DOF Has Implemented the Data Analytics Corrective Actions.

Grant Thornton recommended that "the City and the Program perform standard and consistent monitoring and tracking of claims," and provided several sample data analyses.<sup>20</sup> DOF included

<sup>20</sup> Grant Thornton, "Workers' Compensation Report," 42.

data analysis as a provision in Gallagher Bassett's contract. DOF has monthly meetings with Gallagher Bassett to review Program performance and identify areas for improvement. For example, the materials memorializing the meetings show analysis of anomalous claim patterns, such as a high number of claims by a given department compared to industry benchmarks. They also show how claims against the City develop higher costs over their lifecycles than claims against other comparable entities.

## **C | DOF Has Implemented Claims Administration Corrective Actions Related to Benefit Delivery and Closure. DOF Still Needs to Implement Additional Corrective Actions Related to Medical Review, File Administration, Initial File Review, and Forms.**

The Grant Thornton report recommended a variety of claims administration improvements, such as creating written policies and procedures, assigning claims in a timely manner, and reviewing claims to reduce the risk of overpayment. OIG analyzed the Program's administration by reviewing both a randomly selected sample of claims and an additional sample of five high-risk claims.<sup>21</sup> As Figure 5 shows, DOF has made many of the improvements Grant Thornton recommended.

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<sup>21</sup> The Methodology section describes the characteristics OIG considered in choosing categories of claims administration corrective actions and identifying high-risk claims.

Figure 5: DOF Has Made Some Improvements in All Six Categories of Claims Administration

Recommendation Category	Expected Corrective Action	Applicable Randomly Selected Claims	Applicable High-Risk Claims	Policies and Procedures
File Administration - Partially Implemented	Supervisors review claims within one business day.	78 of 87	4 of 5	-
	Claims assigned to an adjuster within one business day.	77 of 87	4 of 5	-
	Average weekly wage and total disability rates calculated and processed by third business day.	26 of 66	0 of 5	-
Initial File Review - Substantially Implemented	Initial file analysis performed within two business days of assignment.	81 of 87	4 of 5	-
	Indemnity claims show attempt to obtain a recorded statement.	38 of 51	4 of 5	-
	Claims contain a documented action plan.	82 of 96	5 of 5	-
	Written policies and procedures to regularly review compensability determinations.	-	-	Contract requires 95% of determinations within 30 days; monthly penalty of 1% of service fees when the average is above.
Benefit Delivery - Fully Implemented	Written policies and procedures to ensure temporary disability stop letters are sent in compliance with Ill. Admin. Code tit. 50, Ch. 6, § 9110.70 (2006).	-	-	Special Handling Instructions include letter template for suspending or discontinuing benefits.
	Total amount paid per claim does not exceed amount reserved.	65 of 67	5 of 5	-
Medical Review - Substantially Implemented	Written policies and procedures for initial and ongoing review of medical records.	-	-	Special Handling Instructions include authorization steps to obtain medical bills and records, but not procedures for initial and ongoing review of records.
	Written policies and procedures to ensure adjusters receive medical release forms.	-	-	Special Handling Instructions include a template for the release of claimant medical bills and records
	Claims indexed with Insurance Service Office.	91 of 96	5 of 5	-
	Written policies and procedures to verify that adjusters administered drug and alcohol tests for applicable claims.	-	-	Special Handling Instructions require all claimants to complete a drug test after an accident and provide a dedicated email inbox for test results.
Forms - Substantially Implemented	Written policies and procedures to file first report of injury for claims resulting in more than three days of lost wages in compliance with subsection 6(b) of 820 ILCS 305/6 (2021).	-	-	Contract requires compliance with applicable laws, but does not provide procedures around first report of injury.
	Written policies and procedures to send delay letters if compensability determination cannot be made within 14 days of claim notification in compliance with Ill. Admin. Code tit. 50, Ch. 6, § 9110.70 (2006).	-	-	Special Handling Instructions include a letter template to send when determination not made within 14 days.
	Written policies and procedures to send denial letters if within 14 days of claim notification when liability is denied in compliance with Ill. Admin. Code tit. 50, Ch. 6, § 9110.70 (2006).	-	-	Special Handling Instructions include a letter template to send within 14 days when liability is denied.
	Reserve analysis performed on each claim.	66 of 96	5 of 5	-
Closure - Substantially Implemented	Claims handled aggressively to ensure timely closure.	-	-	DOF has implemented corrective actions related to file administration and benefit delivery that ensure claims are handled aggressively.
	Written policies and procedures to ensure bills are paid prior to closure.	-	-	Gallagher Bassett reported that its claims system allows for some payments after closure if a bill is disputed or payment must be reissued, but limits to 8 transactions totaling \$5,000 or less.
	Claims are closed timely.	-	-	DOF has implemented corrective actions related to file administration and benefit delivery that ensure claims are closed timely.

Source: OIG visualization

Among the improvements noted in Figure 5, DOF has issued special instructions to Gallagher Bassett to provide additional guidance and standardization for some claims circumstances. DOF also included some service level agreements in the contract, along with penalties for not meeting these benchmarks. DOF stated that it is continually refining its accountability measures with respect to the contract. Further, the Program appears to benefit from Gallagher Bassett's internal claims management policies and procedures. As shown in Figure 5, most applicable administration steps were completed in an appreciable share of the 96 randomly selected and five high-risk claims OIG examined. However, there is room for improvement. For example, the Program could increase the promptness with which it calculates weekly wage and disability rates, and more consistently attempt to obtain recorded statements for indemnity claims. As the Program matures, DOF has the opportunity to focus on improvements in these areas. Standardizing claims administrative policies and procedures is an important part of a workers' compensation program.

## D | DOF Has Yet to Establish a Formal Peer Jurisdiction Analytic Program.

The Grant Thornton report recommended that the City establish a formal peer jurisdiction analytic program to proactively identify patterns of fraud, waste, and abuse and identify ways to increase efficiency. While DOF has made various attempts to establish a peer jurisdiction analytic program, it has not yet sustained this on a formal basis.

DOF stated that Gallagher Bassett periodically connects with clients in other jurisdictions to identify best practices. The City benefits from these connections, as Gallagher Bassett identifies and implements Public Entity Best Practices to address and detect fraud, waste, and abuse. DOF reports that Gallagher Bassett's service team often reaches out to those who work on other large public entity programs to learn from their experiences.

## | Recommendations

DOF should continue to implement corrective actions related to the recommendations made in Grant Thornton's 2019 report. To that end:

1. DOF should clarify its written procedures to ensure that Program staff,
  - a. calculate the total amount of average weekly wage and temporary disability benefits within three business days;
  - b. collect recorded claimant statements for each claim, or document attempts to do so if a statement cannot be obtained;
  - c. complete the filing of first report of injury in compliance with subsection 6(b) of the Illinois Workers' Compensation Act, 820 ILCS 305/6 (2021);
  - d. conduct and document a reserve analysis for all claims, as recommended by Grant Thornton; and
  - e. review claims adjusters' initial review and ongoing analysis of medical records.
2. DOF should establish a formal analytic program with peer jurisdictions, as recommended by Grant Thornton.

## | Management Response

1. *"Please note the current ongoing and sustained operational procedures. DOF has and will continue to direct the Third-Party Administrator (TPA) to complete the following pursuant to Grant Thornton recommendation, statutory obligation, and OIG recommendation. The specific items follow:*
  - a. *"Pursuant to the Illinois Workers' Compensation Act, "... cases where the temporary total incapacity for work continues for a period of 14 days or more from the day of the accident compensation shall commence on the day after the accident." If the period of temporary total incapacity for work lasts more than 3 working days, weekly compensation as hereinafter provided shall be paid beginning on the 4th day of such temporary total incapacity and continuing as long as the total temporary incapacity lasts." The TPA is directed to request historical wage information for the injured worker from DOF. The wages are consistently calculated for applicable compensation rates. The benefits commence no later than 14 days of initial disability. The payment includes compensation from the initial date of disability. The wages are calculated upon the first date notice of time away from work is verified by medical documentation.*
  - b. *"Recorded statements are to be taken on all indemnity (lost time) claims. If a recorded statement cannot be obtained, it must be documented in the claim file notes.*
  - c. *"The TPA utilizes the Mitchell Reporting Platform for Electronic Data Interchange (EDI) reporting in the State of Illinois. Once the claim is updated [...] to meet the reporting requirements per the state of Illinois, the claim will be picked up for EDI reporting and sent to Mitchell to start the filing process.*
  - d. *"Reserve analysis is performed and documented on all claims. When a material change in claim development arises, GB resolution managers must document DOF concurrence to make the reserve update.*
  - e. *"Under the oversight of the Workers' Compensation Division of the Department of Finance, the TPA is responsible for review initial medical reports to ensure that the history/reason for visit reported to the provider is consistent with the mechanism of injury reported to the employer/TPA. The review is for any potential comorbidities, pre-existing injuries/conditions, or chronic/degenerative conditions to determine if there is any impact on compensability or anticipated recovery time. The perpetual review also includes initial medical reports to ensure that the diagnosis correlates with the mechanism of injury reported. Regarding ongoing medical treatment records, the TPA is reviewing to ensure that the injured worker is making progress towards maximum medical improvement, and that the treatment plan remains appropriate for the compensable injury/diagnosis claimed."*
2. *"DOF is administratively preparing to hire a Workers' Compensation Analyst. Under the oversight of the Workers' Compensation Director, the Workers' Compensation Analyst will*

*coordinate knowledge exchange with peer organizations. DOF will build a diverse network to identify opportunities for improvement and integrate operational models. The goal is to have perpetual communication with peers, as well as quarterly learning sessions with like/kind risks throughout the country.”*



## Finding 2: DOF Published the Annual Reports as Required by the MCC, but Should Standardize Reporting Periods and Ensure Required Content is Included.

The MCC requires the Comptroller to “annually post in a prominent public location on the Department of Finance website a report showing activity of the Program over the preceding year, including information pertaining to claims paid, claims denied, and associated expenditures of funds.”<sup>22</sup> The 2020, 2021, and 2022 annual reports for DOF’s Workers’ Compensation Program are available on the Workers’ Compensation web page.<sup>23</sup> Publication of the annual report increases transparency of the Program, which previously operated with little oversight.

While DOF has published each required annual report, it does not have clear policies or procedures to ensure that the annual reports are made available to the public on the date of issuance noted on the reports. Figure 6 shows that, of the previous three reports, DOF published only the 2022 report on the same day as it was issued. As of the time of this audit, DOF has not yet published the 2023 report.

**Figure 6: DOF Has Not Standardized Annual Reporting Periods**

Year	Issue Date on Report	Website Publication Date <sup>24</sup>
2020	September 30, 2021 <sup>25</sup>	April 1, 2022
2021	September 30, 2022	November 16, 2022
2022	August 8, 2023	August 8, 2023

Regarding report content, DOF did not ensure that its 2020 report contained all information required by MCC § 2-32-1410. DOF included information on claims paid and the associated expenditures of funds in the 2020 report, but no information on claims denied, as required by MCC § 2-32-1410. DOF included all required information in the 2021 and 2022 reports.

If DOF does not consistently meet reporting requirements, public trust in the administration of the City’s Workers’ Compensation Program may diminish. Fostering such trust is especially critical given the Program’s history of poor management and oversight.

<sup>22</sup> MCC § [2-32-1410](#)

<sup>23</sup> City of Chicago, Department of Finance, “Workers’ Compensation,” accessed August 11, 2023, <https://www.chicago.gov/city/en/depts/fin/provdrs/Workers-Compensation.html>.

<sup>24</sup> OIG used report metadata to determine the website publication dates.

<sup>25</sup> The 2020 report was subsequently revised on January 5, 2022.

## | Recommendations

3. DOF should develop procedures to ensure it complies with MCC § 2-32-1410. Such procedures should ensure the annual reports include all MCC-required information and establish clear publication timelines.

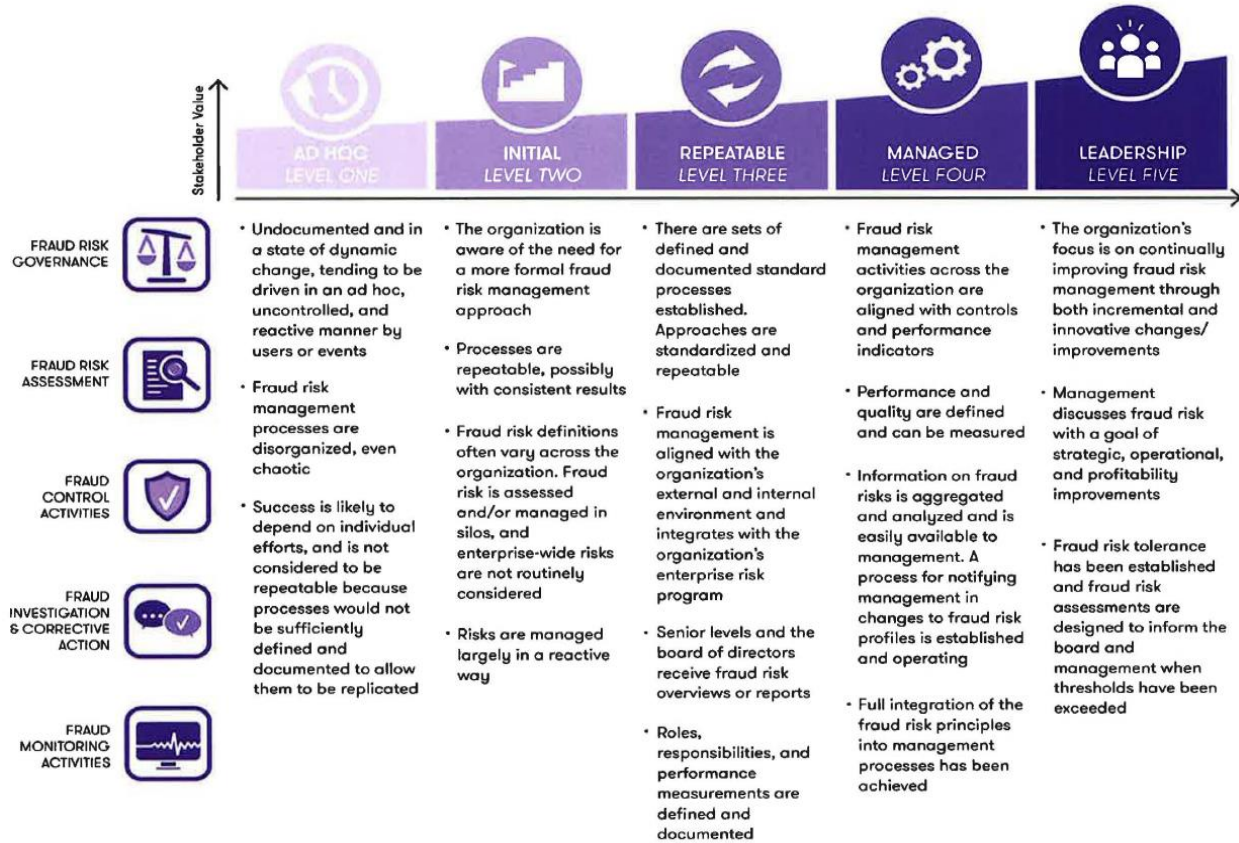
## | Management Response

3. *"The annual report will be drafted and published on the DOF website consistently at approximately the same time each calendar year. The report will convey information compliant with MCC § 2-32-1410."*

## V | Conclusion

DOF operates the City Workers' Compensation Program through a contract with a third-party administrator that follows and executes the applicable policies and procedures. This represents an improvement on the administration of the Program by the City Council Committee on Finance, under which it operated for decades with no oversight. DOF has substantially implemented the corrective actions recommended by Grant Thornton in 2019. DOF also increased transparency into the Program by publishing the Program's annual report. However, improvement is needed to standardize reporting periods and ensure all required content is included. The Program has more than 2,000 open claims expected to cost over half a billion dollars across their lifetimes, therefore cost reduction and efficient service are high priorities. The improvements should enable the City to reduce unnecessary costs and deliver more efficient service to employees injured while working. Implementing these corrective actions has addressed some of the highest-risk areas. DOF, however, should continue to identify and implement methods for maximizing the Program's efficiency and effectiveness. Furthermore, understanding the Program's historical lack of oversight, DOF should improve annual reporting procedures in an effort to regain the public trust.

# Appendix A | Grant Thornton's Fraud Risk Maturity Model



Source: Grant Thornton

# Appendix B | Complete Management Response



Deborah Witzburg  
Inspector General

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### Management Response Form

Project Title: Audit of DOF's Civilian Workers' Compensation Program Administration

Project Number: 22-0208

Department Name: Department of Finance

Date: June 14, 2024

Department Head: Chasse Rehwinkel, City Comptroller

OIG Recommendation	Agree/ Disagree	Department's Proposed Action	Implementation Target Date	Party Responsible
<p>1. DOF should clarify its written procedures to ensure that Program staff,</p> <p>a. calculate the total amount of average weekly wage and temporary disability benefits within three business days;</p> <p>b. collect recorded claimant statements for each claim, or document attempts to do so if a statement cannot be obtained;</p>	Agree	<p>Please note the current ongoing and sustained operational procedures. DOF has and will continue to direct the Third-Party Administrator (TPA) to complete the following pursuant to Grant Thorton recommendation, statutory obligation and, OIG recommendation. The specific items follow:</p> <p>a) Pursuant to the Illinois Workers' Compensation Act, "... cases where the temporary total incapacity for work continues for a period of 14 days or more from the day of the accident compensation shall commence on the day after the accident." If the period of temporary total incapacity for work lasts more than 3 working days, weekly compensation as hereinafter</p>	Ongoing and sustained.	Workers' Compensation Division of Department of Finance and the Third-Party Administrator

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OIG Recommendation	Agree/ Disagree	Department's Proposed Action	Implementation Target Date	Party Responsible
<ul style="list-style-type: none"> <li>c. complete the filing of first report of injury in compliance with subsection 6(b) of the Illinois Workers' Compensation Act, 820 ILCS 305/6 (2021);</li> <li>d. conduct and document a reserve analysis for all claims, as recommended by Grant Thornton; and</li> <li>e. review claims adjusters' initial review and ongoing analysis of medical records.</li> </ul>		<p>provided shall be paid beginning on the 4th day of such temporary total incapacity and continuing as long as the total temporary incapacity lasts." The TPA is directed to request historical wage information for the injured worker from DOF. The wages are consistently calculated for applicable compensation rates. The benefits commence no later than 14 days of initial disability. The payment includes compensation from the initial date of disability. The wages are calculated upon the first date notice of time away from work is verified by medical documentation.</p> <ul style="list-style-type: none"> <li>b) Recorded statements are to be taken on all indemnity (lost time) claims. If a recorded statement cannot be obtained, it must be documented in the claim file notes.</li> <li>c) The TPA utilizes the Mitchell Reporting Platform for Electronic Data Interchange (EDI) reporting in the State of Illinois. Once the claim is updated in cs to meet the reporting requirements per the state of Illinois, the claim will be picked up for EDI reporting and sent to Mitchell to start the filing process.</li> <li>d) Reserve analysis is performed and documented on all claims. When a material change in claim development arises, GB resolution managers</li> </ul>		

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OIG Recommendation	Agree/ Disagree	Department's Proposed Action	Implementation Target Date	Party Responsible
		<p>must document DOF concurrence to make the reserve update.</p> <p>e) Under the oversight of the Workers' Compensation Division of the Department of Finance, the TPA is responsible for review initial medical reports to ensure that the history/reason for visit reported to the provider is consistent with the mechanism of injury reported to the employer/TPA. The review is for any potential comorbidities, pre-existing injuries/conditions, or chronic/degenerative conditions to determine if there is any impact on compensability or anticipated recovery time. The perpetual review also includes initial medical reports to ensure that the diagnosis correlates with the mechanism of injury reported. Regarding ongoing medical treatment records, the TPA is reviewing to ensure that the injured worker is making progress towards maximum medical improvement, and that the treatment plan remains appropriate for the compensable injury/diagnosis claimed.</p>		

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OIG Recommendation	Agree/ Disagree	Department's Proposed Action	Implementation Target Date	Party Responsible
2. DOF should establish a formal analytic program with peer jurisdictions, as recommended by Grant Thornton.	Agree	DOF is administratively preparing to hire a Workers' Compensation Analyst. Under the oversight of the Workers' Compensation Director, the Workers' Compensation Analyst will coordinate knowledge exchange with peer organizations. DOF will build a diverse network to identify opportunities for improvement and integrate operational models. The goal is to have perpetual communication with peers, as well as quarterly learning sessions with like/kind risks throughout the country.	Q4 2024 to Q1 2025	Director of Workers' Compens ation and Workers' Compens ation Analyst
3. DOF should develop procedures to ensure it complies with MCC § 2-32-1410. Such procedures should ensure the annual reports include all MCC-required information and establish clear publication timelines.	Agree	The annual report will be drafted and published on the DOF website consistently at approximately the same time each calendar year. The report will convey information compliant with MCC § 2-32-1410.	Q3 2024 and ongoing	Comptroll er and Director of Workers' Compens ation

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