



Oregon

Theodore R. Kulongoski, Governor

Department of Consumer and Business Services
Workers' Compensation Division
350 Winter Street NE
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1-800-452-0288, 503-947-7810
www.wcd.oregon.gov

Nov. 23, 2009

To: Workers' compensation insurers, self-insured employers, and third-party administrators

Subject: Payment data for upcoming timeliness audits

Industry Notice

In June 2009, the Workers' Compensation Division (WCD) notified you of upcoming changes to our claims processing performance audits. You may review the notice at http://www.cbs.state.or.us/external/wcd/communications/industry_notices/audit_change2009.pdf.

WCD is now ready to implement the first of those changes: the new annual audit focusing on timeliness performance. In order to develop appropriate audit samples, WCD will use claims information already reported to the division and other limited payment data submitted by companies. **By Feb. 1, 2010, all insurers and self-insured employers must submit 2009 payment data for ongoing time-loss payments (not first payments) and worker reimbursement payments as listed below.**

Report data for all ongoing time-loss payments and worker reimbursement payments issued from Jan. 1, 2009, through Dec. 31, 2009. Report the following data items:

- Insurer name
- Worker name
- Insurer claim number
- Date of injury
- Total number of ongoing time-loss payments or worker reimbursement payments issued in the claim from Jan. 1, 2009, through Dec. 31, 2009
- Processing location (for insurers who use multiple claims processing locations)

It is not necessary to report payment dates, time periods covered, reimbursement request receipt dates, or due dates. WCD will only use the reported payment data to develop audit samples for onsite audits, not to determine the insurer's timeliness before an onsite audit.

For this first installment of payment data reporting, in order to ensure the security of the data, please send it to WCD by fax or by data file on a disk. If submitting data via a disk, use either Microsoft Excel (2007 or earlier) or Comma Separated Values (CSV). We want to allow as much flexibility as possible with the data reporting; however, WCD is not able to accept direct electronic transmission of your data yet. As we implement the annual audit methodology during 2010, we will review the payment reporting processes and develop options for secure electronic transmission of the data.



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Fax payment data to Sally Coen at 503-934-6048 or mail the data file on disk to WCD, Attn: Field Audit Unit, P.O. Box 14480, Salem, OR 97309-0405.

WCD requested input on the announced changes to our audit programs, including requiring insurers and self-insured employers to submit the additional payment data outlined in this notice. We received little input from the industry, and the responses we did receive presented no significant barriers to implementing these new audits. Therefore, we have developed our tentative findings categories for the annual timeliness audit. You may review a summary in the attachment at the end of this industry notice.

WCD is committed to developing audit programs that allow us to monitor industry performance while minimizing burdens and intrusiveness on companies. We will pilot the annual audit at some locations to fine-tune the new processes and methodology before contacting all processing locations to schedule audits. We continue to welcome your input. Please contact us if you would like to participate in a pilot audit.

Along with implementing the annual timeliness audits, WCD is also developing our methodology for topic-specific focused audits. We will issue additional notices in the future providing more information about upcoming audit plans and schedules.

If you have any questions about this notice, contact Field Audit Unit Manager Sally Coen at 503-934-6026 or e-mail sally.c.coen@state.or.us.

John Shilts, Administrator
Workers' Compensation Division

Distribution: PD8903 (insurers), PD8913 (TPAs), ID (internal)

New Methodology for Performance Audits

November 2009

Background

The Workers' Compensation Division (WCD) is replacing the current audit programs that monitor insurer and self-insured employer claims-related activities with a more flexible, risk-based methodology. This approach focuses on industry performance areas rather than on audit "programs." The changes affect the following current audit programs: quarterly claims processing performance (QCPP) audit, compliance audit, reimbursable claims audit, and Employer-at-Injury Program audit. However, the changes do not affect the current self-insured employer claims reserve audit.

New approach

WCD is transitioning to a methodology with two major components:

- **Annual audits** – focusing on timeliness of benefit payments and processing actions
- **Focused audits** – emphasizing specific performance areas

Annual audits

The focus of this audit is to regularly and quickly assess current performance in the timeliness of benefit payments and certain processing actions. These are core-processing requirements that support a key performance measure of the workers' compensation system health. In the annual audit, we will review a sample of a company's activities in nine categories, over the course of a one-year period.

Timeliness of:

- First payment of time loss
- Claim acceptance or denial
- Initial claims reports to the division
- Notices of Closure
- Permanent total disability payments
- Fatal benefit payments
- Ongoing time-loss payments
- Worker reimbursement payments

Accuracy of:

- Worker reimbursement payments

WCD will develop the samples based on data that insurers report to the division. In the first six categories listed above, the data will come from the "Insurer's Report" (Form 1502), the "Insurer Notice of Closure Summary" (Form 1503), or the "Request for Reimbursement from the Retroactive Program" (Form 3285) that insurers already send to WCD. In the other three categories (timeliness of ongoing time-loss payments and timeliness and accuracy of worker reimbursement payments) WCD will obtain annual payment data from insurers to develop appropriate audit samples. We will need the following data elements: insurer name, worker name, insurer claim number, date of injury, total number of ongoing time-loss payments or worker reimbursement payments issued in the claim in the 12-month period specified, and processing location name (for insurers who use multiple claims processing locations).

We will not need payment dates, time periods covered, reimbursement request receipt dates, or due dates. WCD will only use the reported payment data to develop audit samples for future onsite audits, not to determine the insurer's timeliness before an onsite audit.

During the annual audit, WCD will verify actual performance. In the categories in which companies self-report their timeliness on Form 1502 and Form 1503, we will also verify reporting accuracy. (The Form 1503 timeliness self-reporting will begin Jan. 1, 2010, when the revised form is effective. See amended Bulletin No. 139 issued Nov. 16, 2009. WCD will not audit Form 1503 reporting accuracy in the annual audit until after the changes to the form are effective.)

We have developed tentative findings categories for the annual audit. WCD auditors will make the following findings in nine performance categories:

1. First payment of time loss
 - a. Timely - yes/no.
 - b. Accurately reported – yes/no. If no, corrected by processor – yes/no.
 - c. Reason(s) for late payment or inaccurate reporting.
2. Claim acceptance or denial
 - a. Type of claim: initial, aggravation, or new/omitted condition.
 - b. If initial or aggravation claim:
 - i. Timely – yes/no.
 - ii. Accurately reported – yes/no. If no, corrected by processor – yes/no.
 - c. If new/omitted condition claim: Timely yes/no only.
 - d. Reason(s) for late decision or inaccurate reporting.
3. Initial claims reports to the division
 - a. Timely – yes/no (from WCD data).
 - b. Reasons for late filings, if found.
4. Notices of Closure
 - a. Timely - yes/no or not applicable (not applicable if claim did not qualify for closure).
 - b. If not applicable, reasons why claim did not qualify for closure.
 - c. If applicable, accurately reported - yes/no.
 - d. Reasons for late closure or inaccurate reporting.
5. Permanent total disability payments
 - a. Timely - yes/no.
 - b. Reasons for late payment.
6. Fatal benefit payments
 - a. “Interim” benefit payments (prior to acceptance), if paid, are applicable and counted as timely.
 - b. Benefit payments after acceptance: Timely – yes/no.
 - c. Reasons for late payment.
7. Ongoing time-loss payments (not first payments)
 - a. Timely - yes/no.

- b. Paid to within seven days of the date of payment – yes/no.
 - c. Reasons for late payment.
8. Reimbursements to worker - timely
- a. Timely - yes/no.
 - b. Reasons for late payment.
9. Reimbursements to worker - accurate
- a. Accurate - yes/no.
 - b. Reasons for inaccurate payment.
 - c. If inaccurate, amount of overpayment or underpayment for each payment.

The division will no longer issue quarterly claims processing performance penalties. We issued the final penalties under the QCPP audit in November 2009 for third quarter 2009 reported performance. We will continue to provide companies copies of their reported data each quarter for their own use and monitoring. Processors should continue to document any reporting errors they identify and submit correcting forms to the division as appropriate; however, WCD will no longer make any requested changes to the quarterly performance reports. Instead, WCD will verify the performance and reporting accuracy during the new annual audits. To encourage accurate self-reporting in the annual audit, we will issue penalties for performance deficiencies and inaccurate reporting. We are developing a penalty matrix that addresses both a company's actual performance level and the accuracy of its reporting. Since the performance categories in the annual audit are long-standing core processing requirements, the division will penalize in each case where performance does not meet the standards, even after the first annual audit. Industry performance standards will not change. The categories that directly relate to provision of benefits to workers will remain at a 90 percent timeliness standard, and claims reporting to the department will remain at an 80 percent timeliness standard.

Some processors misunderstand the requirements for ensuring that the first payment of time loss is issued timely. Under OAR 436-060-0150(5)(a) and (b), timeliness is calculated based on when the medical provider authorizes temporary disability, not when the processor receives the authorization. We have posted information regarding this requirement on our Web site at <http://www.cbs.state.or.us/wcd/compliance/fau/1pay.pdf>. Companies may also contact the division's Field Audit Unit for additional training.

WCD plans to pilot the annual audit at some locations to fine tune the audit and methodology. Thereafter, all companies will initially be subject to the annual audit. After the first or second audit, however, we will reward good performers by omitting them from some subsequent annual audits. We will also post insurer, self-insured employer, and third-party administrator performance in the annual audits on our Web site. Finally, we anticipate these audits will be less intrusive, as audit teams should be able to review the samples quickly.

Focused audits

In addition to the annual audits of key timeliness areas, the majority of the division's audit activities will shift to focused audits. These are topic-specific audits directed towards particular performance areas.

WCD will determine the topics and scope of the focused audits based on a number of factors, including:

- Industry and individual company performance
- Trends and problems identified across WCD programs and work processes
- Department policy and program decisions
- Complaints and inquiries received by the department
- The need to establish baseline performance in areas in which we do not currently audit
- Direction from the Legislature or Management-Labor Advisory Committee

This approach helps WCD to be quick and flexible in generating more current information, and develop each audit based on needs, instead of cyclical program audits that do not change. Many audits will be industrywide, but we will also use audits to focus on specific poor performers as one way of encouraging them to improve performance. The focused audits may also identify areas where the division needs to change administrative requirements or internal processes that are unclear or are barriers to industry compliance, or to provide additional education and outreach.

Examples of possible focused audits include but won't be limited to:

- Accuracy of worker benefits
- Nondisabling claims
- Notices of Closure
- Permanent disability rating and payment
- Medical services
- Managed care
- Accuracy of reimbursements from the Workers' Benefit Fund
- Return to work and vocational assistance
- Proof-of-coverage requirements

The division will regularly communicate its upcoming focused audit plans and schedules with the industry. As with the annual audit, WCD will pilot the focused audits methodology at some processing locations prior to implementing an industrywide audit. This will allow us to test assumptions about our data or insurer performance and give us the opportunity to adjust the methodology.

Since the focused audits will be topic specific and address different performance areas, we will develop samples and a penalty approach for each audit. We will adjust the penalty approach as needed based on audit findings and the context of other sanctions. Penalties may be based on criteria such as the purpose of the audit, whether the topic is one in which the division has previously audited, and whether additional training or a reaudit is required.

Focused audits will include an educational component and follow-up plan in the audit methodology. When focused audits identify low performance areas, the division will provide follow-up training to the company in those areas within 15 to 30 days after the exit interview. The auditors, who conducted the audit, as well as other division technical experts, will provide the training. In addition, WCD will schedule a reaudit six months later to assess whether the company's subsequent processing in those areas meets the required performance thresholds. In instances where the division conducts training and reaudits, we may suspend penalties to give the company the opportunity to address its performance problems.

The division will use the flexibility of our focused audit approach to create incentives for

companies to perform well. In addition to penalties, or the absence of penalties, we may reward good performers by omitting them from some audits. WCD will track and post performance and comparison data on our Web site to influence better processing by insurers, self-insured employers, and third-party administrators. We plan to issue industry notices regarding top performers and share information about their “best practices.” We will also look for other ways to reward good performance and behaviors that go beyond removing negative consequences, such as recognition in department publications or public recognition at department-sponsored conferences.

Other performance expectations

Reducing the division’s intrusiveness during a performance audit continues to be a goal of our audit program. Areas that negatively impact our ability to quickly and efficiently complete audits include industry responsiveness and records availability.

Auditors sometimes have a significant problem getting timely responses to audit referrals. This can delay completion of an audit and affects other planned audits. Therefore, the division will begin assessing penalties for not responding or responding late to audit referrals. Prior to issuing a penalty, auditors will clearly communicate timeframe expectations and provide written direction to processors.

Similarly, auditors frequently have problems with processors not having required files or other records available at audit, despite providing advance notice to companies, and in some cases giving additional time. Therefore, the division will begin assessing penalties when companies do not produce records for the audit in a timely manner. Auditors will provide written direction regarding the required records and the timeframes for having the records available before issuing a penalty.

Transition to new approach

The division is transitioning to this new audit methodology. We are finishing the cycles for the current compliance audits and the Workers’ Benefit Fund reimbursement audits while we implement processes for the new annual audit. WCD will begin pilots of the annual audit in December 2009. We are also planning and developing processes for the focused audit and anticipate pilots of the first audits in early 2010.

We continue to welcome input on these planned audit changes. You may contact Field Audit Unit Manager Sally Coen at 503-935-6026 or e-mail sally.c.coen@state.or.us.

You may also mail input to:
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