Compliance Audit Report, 2004-2006 Cycle

Following a major revision of our audit methodology, we completed the last audit cycle in just over two years (April 2004 through August 2006) - a considerable reduction from the 7-8 years needed to complete the prior audit cycle. We accomplished this, primarily, by changing our sampling method from one using standardized sample sizes and volume-laden selection to one using statistically valid, claim-volume based sizes and more productive selection.

The Audit Process

Following is a general description of the audit methodology we applied to standard compliance audits during the 2004-2006 cycle.[1]

Subject Selection

We audited claims processing locations; all insurers and self-insured employers with claims activity during a one-year audit period preceding the start of the audit were audited. The one-year audit period was set back about six months from the start of the audit to allow auditable activity to develop in the claims. During this cycle, all insurers and self-insured employers in Oregon with claim activity during the audit periods were audited.

Sample Selection

The "General Sample" was the primary audit activity. This sample was comprised of disabling new claims, aggravation claims, or vocational rehabilitation re-openings occurring during the audit period. We used a statistical sampling formula, based on the total number of these claims at a location, to determine how many claims to audit to assure we were 95% confident that what we found would represent what we would find if we audited all the claims, plus or minus 5%.

We sampled a number of non-disabling claims that was 50% of the number of General Sample claims. Since insurers do not report non-disabling claims to WCD (generally), we asked them for a list of those claims and selected our sample from it.

We also audited any PTD and Fatality claims that showed as active in WCD's database. Added to those were claims showing on Retroactive Reserve reimbursement requests for periods during the audit period. The sample size for PTD, Fatality, and Retroactive Reserve claims was the number of them that existed, up to twenty.

Finally, we reviewed a sample of claims filed prior to the audit period and still open during the audit period. The number of claims in this "Special Review" sample was 10% of the number of General Sample claims.

Auditing

[1] We have changed aspects of this methodology for current compliance audits, and we conduct other types of audits and claim reviews using other methodologies.

Following an entrance interview, which included questions regarding general claims processing, file storage/retention, etc., we audited the following aspects of the above listed claims:

- General Sample – **accuracy** of temporary disability paid ("Paid as Authorized"); **timeliness** of temporary disability payments (subsequent to first payment) and medical payments; **accuracy and timeliness** of reimbursements to worker, permanent partial disability payments, and Notices of Closure; and **accuracy of reporting** to WCD for timeliness of first temporary disability payment, timeliness of claim acceptance/denial, and forms 1503. All these payments and items issued from the start of the audit period to the time of review were audited.

- Non-disabling claims – **accuracy** of claim classification (non-disabling vs. disabling), **timeliness** of claim acceptance/denial, and proper acceptance notice.

- PTD, Fatality, Retroactive Reserve – **accuracy and timeliness** of PTD and fatality payments, and **accuracy** of items reported on Retroactive Reserve reimbursement requests.

- Special Review – these older, usually complex claims were not necessarily audited; they were reviewed for general claims processing. We looked for periods of time loss due but not paid, open claims the insurer should have closed long ago, etc. Findings in these claims were not included in the insurer's performance statistics.

Following the completion of auditing, we compiled the overall results and conducted an exit interview (if the claims processor wanted one – not all did), discussing our findings, recommendations, report process, and penalties.

Audit Report

We first issued a draft report, summarizing the audit's objectives, test methods, findings, and deviations. Only the claims processing company received this report. They had the opportunity to challenge the findings and address the areas of low performance before we issued the final report.

After addressing any issues raised by the claims processor, we issued the final report. We sent this report to both the claims processor (if changes were made to the draft report) and any involved insurers.

Penalties

Areas with performance below 80% accurate or timely were penalized. However, two conditions apply: areas with less than five items audited were not penalized, and overpayment deviations were excluded from the time loss accuracy ("Paid as Authorized") performance percentage.

The only exception to the above standard was accurate reporting of timeliness of first pay, which was penalized if more than one late payment was reported as timely, regardless of the performance percentage.

Industry-wide General Data

We audited 3908 claims from 240 insurers; 131 of them were insurance companies, and 109 were self-insured companies. Three-quarters (74%) of the insurance companies used third-party administrators (TPAs) to process claims, as did 89% of the self-insureds. Nearly one-third (31%) of the insurers who used TPAs used more than one. We audited claims processed by 30 TPAs.

The industry, as a whole, is:

- **Timely paying 92.6% of benefits** (including medical bills, which were 92.3 % timely). Only one type of payment was less than 90% timely: time loss payments subsequent to the first payment, which were 89.2% timely paid.

- **Accurately paying 85.5% of benefits** (including overpayments – excluding them increases the accuracy to 92.5%). Only one type of benefit averaged less than 90% accurate: Paid as Authorized (time loss payments) was 65.9% accurate, including overpayments. It was 88.8% accurate, excluding overpayments.

- **Accurately reporting 91.7% of information** to WCD. Only one type of report averaged less than 90% accuracy: timeliness of first disability payment (reported on form 1502), which was 87.6% accurate.

Non-statutory time loss overpayments were more than twice as common as underpayments (893 vs. 438). The dollar amount of overpayments totaled 1.5 times that of underpayments ($349,435.07 vs. $226,012.33). The average amount of an overpayment was $391.30; the average amount of an underpayment was $516.01.

Given that we audited 3908 of the industry's 22,114 claims (the number of disabling claims in 2005) for time loss accuracy, probability would estimate total annual overpaid time loss in the industry at $1.98 million. These were error-based overpayments, not statutory or intentional. The estimated total annual underpayment is $1.28 million.

Industry-wide Performance Data

(See Table 1 – *Industry Performance Levels*)

Table 1 shows, for each area audited, the overall industry performance for this cycle, along with the correlating data from the prior cycle. Also, a net change column shows, for each area, increases or decreases in performance from the prior cycle to this one.

The industry's lowest area of performance was in the Paid as Authorized category, where the accuracy was 65.9%. This is the only area in which the industry average was below our standard of 80% for this cycle. However, removing the overpaid benefits, which are allowed by statute, raises the average to 88.8%.

The next lowest area was accuracy of Notices of Closure, which were 83.7% accurate. Several areas of the Notices of Closure are reviewed; two of them combine almost equally and contribute

to two-thirds of the total inaccuracies: incorrect time loss awards (31%) and incorrect medically stationary/statutory qualifying dates (35%).

The third lowest area of performance was timeliness of issuing Notices of Closure, with 86.5% of the closures issued timely.

The only other areas of performance below 90% (our standard for the next cycle) were timeliness of time loss payments (not first pay) at 89.2% and accurate reporting of timeliness of first pay at 87.6%. The latter would meet our performance standard of 80% for accurate reporting next cycle. However, penalties in that area are not based on performance percentages.

Comparisons

Prior Cycle to Current Cycle
(See Table 1 – *Industry Performance Levels*)

Data from the prior audit cycle (1996-2003) may not be comparable to data from this cycle (2004-2006) because most of the data from the prior cycle is 5-10 years old; some statutes, rules, and auditing methods have changed since then. In fact, the prior cycle took seven-plus years to complete; data from the beginning of it may not even be comparable to data from the end of it, for the same reason.

Interestingly, though, overall industry performance from the last cycle to the current one did not change by more than 2-3% in most areas. The areas that changed did not consistently improve or worsen – about half improved and half worsened. Four areas did change by more than 3%:

- PTD payment accuracy dropped 3.8%
- Timely time loss payments (not first pay) dropped 3.8%
- Accuracy of forms 1503 increased 4.2%
- Timeliness of Notices of Closure dropped 7.8%

Combining all areas of benefit accuracy reveals a 1.9% decrease (including overpayments) from the prior cycle. Combining benefit timeliness shows a 1.4% decrease. Combining accurate reporting also shows a decrease of just 0.5%. Considering that the number of areas increasing or decreasing does not show a trend, these overall decreases may not indicate one, either.

Company Types
(See Table 2 – *Performance Levels by Company Type*)

Table 2 shows, for each area audited, a performance breakdown for insurance companies and self-insured employers that use TPAs vs. those that self-administrate. Totals for third-party administration vs. self-administration and insurance companies vs. self-insured employers are included.

Generally, comparing the performance of insurance companies to that of self-insured companies and the performance of self-administration to that of third-party administration reveals little difference, with some exceptions:

- Self-insureds using TPAs outperformed insurers using TPAs in most areas (13 of 19); however, the differences were generally less than 3% and often less than 1%.

- Self-administrated companies outperformed TPA users in most areas (15 of 19), often by 4-5%. More specifically, this performance difference appears in 4 of 5 areas of benefit accuracy.

- Insurers using TPAs outperformed self-administrated self-insureds by nearly 9% for accurate reporting on forms 1503.

- Insurers significantly outperformed self-insureds in Notice of Closure accuracy, although neither group was above 90%. The lowest group was self-administrated self-insureds at 79.4% accuracy.

- Self-administrated self-insureds outperformed insurers using TPAs by over 8% in non-disabling claim processing. Late accept/deny is the most common deviation for non-disabling claims.

- Self-administrated self-insureds outperformed insurers using TPAs by over 20% in the Paid as Authorized category (accuracy of time loss payments). This is, by far, the largest performance difference amongst the groups.

Additionally in the Paid as Authorized category, self-insured companies outperformed insurers and self-administrated companies outperformed TPA users by 9.2% and 5.6%, respectively. Those differences include overpayments. Looking at only underpayments reduces the differences.

Performance Distribution
(See Table 3 – *Performance Distribution, Split at 80%*)

Table 3 shows, for each area audited, the number and percentage of companies performing below 80% (non-compliant) and at 80% or better (compliant).

In each area of benefit timeliness, more than 85% of companies audited were compliant (a level of 80% timely or better). The same is true of benefit accuracy, except in the Paid as Authorized category. In it, only 36.8% of the companies were compliant. That includes overpayments, however. Looking at only underpayments raises the compliance level to 81.1% of companies.

Less than 80% of companies audited were compliant in both accuracy and timeliness of Notices of Closure (77.4% compliant accuracy, and 72.4% compliant timeliness).

For accurate reporting of timeliness of first pay, 78.4% of companies filed at least 80% of their reports accurately.

Penalties

(See Table 4 – *Penalties by Category*)

Table 5 shows, for each area audited, the total number and dollar amount of penalties issued during the audit cycle.

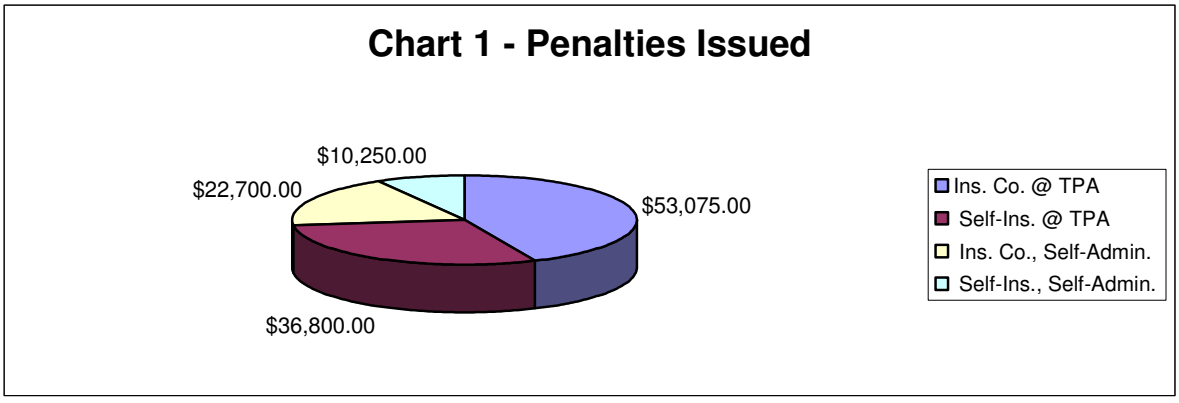
Total penalties issued for the prior audit cycle was $51,500. Total issued this cycle was $122,825. That is an increase of almost 140%, which correlates with our 150% penalty rate increase for this cycle. In other words, the increase in penalties does not indicate a change in performance.

The penalties ranged in amount from $375 to $2100 per insurer.

We penalized 35.9% (124 of 345) of the companies we audited. (Insurers using multiple TPAs are subject to penalties at each TPA and are included multiple times in those numbers.) However, many of the companies we did not penalize had no potential for penalty because their samples in some or all areas were too small.

The five most frequently penalized areas were:

- Timely payment of time loss (not first pay) – 21 penalties issued totaling $11,250.00
- Paid as Authorized (underpayments only) – 22 penalties issued totaling $11,562.50
- Accurate reporting on form 1503 – 23 penalties issued totaling $10,833.33
- Timely Notice of Closure – 39 penalties issued totaling $20,520.83
- Accurate reporting of timeliness of first pay – 54 penalties issued totaling $37,200.00



Performance Area Correlations

Insurers using multiple TPAs did not consistently perform poorly in the same areas at all or most of those TPAs. This is not surprising, given these insurers generally have little or no association with the claims processing - TPAs process the claims.

Additionally, TPAs did not consistently perform poorly in the same areas for all or most of their insurers and self-insured companies. In fact, performance often varies greatly from one insurer or self-insured to another within a TPA. This also is not surprising because the performance within a TPA is driven primarily by individual claims examiners. One examiner may perform poorly in an area where others do not, affecting the performance of only the insurers he or she handles.

Comparing performance areas of an individual insurer to each other did not reveal a tendency for performance in one area to affect performance in other areas. For example, an insurer having excessive late payments of one type did not necessarily have excessive late payments of any other type. The same was true of accurate payments and accurate reporting. In fact, low performance areas seem to occur almost randomly.

***Table 1* - Industry Performance Levels**
(With comparison to prior audit cycle)

Audit Category	1996-2003 Cycle # Audited	1996-2003 Cycle Correct	2004-2006 Cycle # Audited	2004-2006 Cycle Correct	Change
Accurate Payments					
Paid as Authorized/Ordered	7088	68.0%	3908	**65.9%**	-2.1%
Underpayments Only*		89.2%		**88.8%**	-0.4%
Worker Reimbursements	3371	94.4%	1926	91.8%	-2.6%
PPD Payments	1836	93.7%	510	96.3%	2.6%
PTD Payments	6467	95.5%	2966	91.7%	**-3.8%**
Fatal Payments	5374	96.6%	3402	96.9%	0.3%
Total Accuracy of Payment	*24136*	*87.4%*	*12712*	*85.5%*	*-1.9%*
*Underpayments Only**		*93.6%*		*92.5%*	*-1.2%*
Timely Payments					
Time Loss Payments (not 1st pay)	24875	93.0%	14959	**89.2%**	**-3.8%**
Worker Reimbursements	3365	93.5%	1942	94.7%	1.2%
PPD Payments	3616	95.2%	1007	96.4%	1.2%
PTD Payments	6333	99.6%	2966	99.6%	0.0%
Fatal Payments	5354	99.4%	3402	99.4%	0.0%
Medical Payments	10454	90.1%	3031	92.3%	2.2%
Total Timeliness of Payment	*53997*	*94.0%*	*27307*	*92.6%*	*-1.4%*
Timely and Accurate Processing					
Accurate Notice of Closure**	3473	81.5%	2550	**83.7%**	2.2%
Incorrect authorized time loss		46%		31%	-15%
Incorrect med stat or qualify date		27%		35%	8%
Lacked authority to issue NOC		17%		18%	1%
Inaccurate PPD rating		2%		6%	4%
Insufficient information to rate PPD		9%		10%	1%
Timely Notice of Closure	2679	94.3%	2238	**86.5%**	**-7.8%**
Non-disabling Claims	4144	91.9%	1857	90.6%	-1.3%
Accurate Reporting to WCD					
Timeliness of 1st Disability Payment***	3153	90.2%	3511	**87.6%**	-2.6%
Timeliness of Accept/Deny***	3147	94.6%	3619	94.3%	-0.3%
Form 1503	2557	87.4%	2538	91.6%	**4.2%**
Retro Reserve Reporting	2357	96.6%	1189	95.7%	-0.9%
Total Accuracy of Reporting	*11214*	*92.2%*	*10857*	*91.7%*	*-0.5%*

* Only underpayments are considered for penalties in the Paid as Authorized category

** Notices of Closure have multiple areas reviewed. Each area's percentage of contribution to the total number of inaccuracies is listed. Because of rounding, the total percentage may not equal 100.

*** Performance reflects accurate *reporting* of timeliness, NOT timeliness of payment or of decision notice

***Table 2* - Performance Levels by Company Type**

Audit Category	3rd Party Admin. Insurer	3rd Party Admin. Self-Ins.	Self-Admin. Insurer	Self-Admin. Self-Ins.	Total 3rd Party	Total Self-Admin.	Total Insurer	Total Self-Ins.
Accurate Payments								
Paid as Authorized/Ordered	**59.9%**	**67.8%**	**64.5%**	**80.2%**	**63.9%**	**69.5%**	**61.9%**	**71.1%**
Underpayments Only*	**86.8%**	90.5%	**87.9%**	91.6%	**88.6%**	**89.1%**	**87.2%**	90.8%
Worker Reimbursements	91.7%	**88.4%**	93.7%	95.7%	**89.9%**	94.4%	92.7%	90.8%
PPD Payments	97.1%	97.6%	95.4%	93.2%	97.4%	94.6%	96.3%	96.2%
PTD Payments	**87.1%**	**88.0%**	96.2%	93.1%	**87.3%**	95.7%	92.1%	90.1%
Fatal Payments	94.2%	95.4%	99.2%	100.0%	94.5%	99.4%	96.9%	97.1%
Total Accuracy of Payment	*82.2%*	*80.9%*	*89.9%*	*90.6%*	*81.7%*	*90.0%*	*86.1%*	*84.1%*
*Underpayments Only**	*90.0%*	*91.0%*	*95.0%*	*94.5%*	*90.4%*	*94.9%*	*92.6%*	*92.1%*
Timely Payments								
Time Loss Payments (not 1st pay)	**87.9%**	90.2%	**88.1%**	93.6%	**88.9%**	**89.6%**	**88.0%**	91.0%
Worker Reimbursements	92.4%	96.9%	95.1%	93.6%	94.8%	94.5%	93.7%	95.8%
PPD Payments	96.5%	95.6%	97.0%	97.3%	96.0%	97.1%	96.8%	96.0%
PTD Payments	99.4%	99.7%	99.6%	99.6%	99.5%	99.6%	99.5%	99.7%
Fatal Payments	99.1%	99.0%	99.7%	99.6%	99.1%	99.6%	99.4%	99.2%
Medical Payments	90.9%	91.5%	96.1%	92.8%	91.2%	94.6%	92.9%	91.8%
Total Timeliness of Payment	*91.6%*	*92.2%*	*93.3%*	*94.7%*	*91.9%*	*93.6%*	*92.4%*	*92.9%*
Timely and Accurate Processing								
Accurate Notice of Closure	**86.7%**	**81.2%**	**85.5%**	**79.4%**	**83.8%**	**83.6%**	**86.1%**	**80.8%**
Timely Notice of Closure	**82.4%**	**87.8%**	91.2%	**85.2%**	**85.3%**	**89.1%**	**85.9%**	**87.2%**
Non-disabling Claims	**86.8%**	90.7%	92.6%	95.0%	**88.9%**	93.4%	**89.5%**	91.9%
Accurate Reporting to WCD								
Timeliness of 1st Disability Payment**	87.6%	87.0%	88.3%	87.6%	87.3%	88.1%	87.9%	87.1%
Timeliness of Accept/Deny**	93.3%	94.6%	94.0%	96.4%	94.0%	94.7%	93.6%	95.1%
Form 1503	94.0%	92.3%	90.6%	85.2%	93.1%	88.9%	92.5%	90.5%
Retro Reserve Reporting	93.6%	94.8%	97.5%	96.3%	93.9%	97.4%	95.8%	95.2%
Total Accuracy of Reporting	*91.7%*	*91.4%*	*92.2%*	*90.7%*	*91.5%*	*91.8%*	*91.9%*	*91.2%*

* Only underpayments are considered for penalties in the Paid as Authorized category

** Performance reflects accurate *reporting* of timeliness, NOT timeliness of payment or decision notice

***Table 3* - Performance Distribution Split at 80%**

	All Companies*			
	Below 80%		80% or Above	
Audit Category	**# Co.'s**	**% Co.'s**	**# Co.'s**	**% Co.'s**
Accurate Payments				
Paid as Authorized/Ordered	**204**	**63.2%**	119	36.8%
Underpayments Only**	61	18.9%	262	81.1%
Worker Reimbursements	21	10.8%	174	89.2%
PPD Payments	11	7.2%	141	92.8%
PTD Payments	9	16.4%	46	83.6%
Fatal Payments	5	7.5%	62	92.5%
Timely Payments				
Time Loss Payments (not 1st pay)	42	14.6%	245	85.4%
Worker Reimbursements	20	10.2%	176	89.8%
PPD Payments	12	7.9%	140	92.1%
PTD Payments	0	0.0%	55	100.0%
Fatal Payments	0	0.0%	67	100.0%
Medical Payments	20	14.1%	122	85.9%
Timely and Accurate Processing				
Accurate Notice of Closure	**63**	**22.6%**	216	77.4%
Timely Notice of Closure	**76**	**27.6%**	199	72.4%
Non-disabling Claims	45	19.8%	182	80.2%
Accurate Reporting to WCD				
Timeliness of 1st Disability Payment***	**67**	**21.6%**	243	78.4%
Timeliness of Accept/Deny***	37	11.8%	276	88.2%
Form 1503	32	11.4%	249	88.6%
Retro Reserve Reporting	7	10.0%	63	90.0%

* Includes performance for all companies, regardless of number of items audited.

** Only underpayments are considered for penalties in the Paid as Authorized category

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***Table 4* - Penalties by Category**

Audit Category	# Issued	$ Issued*
Accurate Payments		
Paid as Authorized/Ordered	n/a	n/a
Underpayments Only**	**22**	**$ 11,562.50**
Worker Reimbursements	5	$ 2,500.00
PPD Payments	5	$ 2,187.50
PTD Payments	6	$ 3,750.00
Fatal Payments	2	$ 1,250.00
Total Accuracy of Payment	*40*	*$ 21,250.00*
Timely Payments		
Time Loss Payments (not 1st pay)	**21**	**$ 11,250.00**
Worker Reimbursements	3	$ 1,250.00
PPD Payments	2	$ 937.50
PTD Payments	0	$ 0
Fatal Payments	0	$ 0
Medical Payments	12	$ 5,937.50
Total Timeliness of Payment	*38*	*$ 19,375.00*
Timely and Accurate Processing		
Accurate Notice of Closure	9	$ 4,687.50
Timely Notice of Closure	**39**	**$ 20,520.83**
Non-disabling Claims	11	$ 4,895.83
Accurate Reporting to WCD		
Timeliness of 1st Disability Payment***	**54**	**$ 37,200.00**
Timeliness of Accept/Deny***	5	$ 2,812.50
Form 1503	**23**	**$ 10,833.33**
Retro Reserve Reporting	2	$ 1,250.00
Total Accuracy of Reporting	*84*	*$ 52,095.83*

* In some cases one penalty was issued for low performance in 2-3 areas. Those penalties are split between the involved areas. (Thus, the fractions of dollars.)

** Only underpayments are considered for penalties in the Paid as Authorized category

*** Performance reflects accurate *reporting* of timeliness, NOT timeliness of payment or decision notice