

Current methodology for focused performance audits

History

The Workers' Compensation Division (WCD) has replaced its former audit programs that monitored insurer and self-insured employer claims-related activities with a more flexible, risk-based methodology.

WCD has moved to a methodology with two major components:

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

The changes do not affect the current self-insured employer claims reserve audit.

Focused audits

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

WCD determines 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 the 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 audit topics include, but is not 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

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 re-audit is required.

Focused audits may 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 after the audit. The auditors who conducted the audit, as well as other division technical experts as needed, will provide the training. In addition, WCD may schedule a re-audit to assess whether the company's subsequent processing in those areas meets the required performance thresholds. In instances where the division conducts training and re-audits, we may suspend penalties to give the company the opportunity to address its performance problems.

One current focused audit topic is **pre-closure accuracy**. In this audit, WCD audits the accuracy of benefit calculations and disability payments from date of injury up to claim closure. Auditors review processing actions, including calculation of the average weekly wage; temporary disability payments as authorized by medical records and return-to-work information; and individual payment accuracy of temporary total and temporary partial disability periods.

The Pre-Closure Accuracy Audit addresses core claims processing performance areas that directly affect worker benefits and employer costs. WCD chose this audit first because of historically statewide low accuracy of temporary disability benefits. All insurers and self-insured employers will be audited and subject to penalties if performance is deficient. Also, if the Pre-Closure Accuracy Audit identifies low performance, WCD will provide required training and re-assess performance in follow-up audits.

All insurers and self-insured employers with applicable reimbursements will be audited. Auditors may disallow inaccurate or inappropriate reimbursements, which must then be repaid to WCD. Insurers and self-insured employers may be subject to penalties if warranted. Also, if the EAIP Audit identifies low performance, WCD will provide required training and may re-assess performance in follow-up audits.