

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Study of the Workers' Compensation Claims Process for State Employees

Summary

This study was prepared in response to Senate Concurrent Resolution No. 203, Senate Draft 1 of the 1995 Regular Session which requested that the State Auditor conduct a study to improve efficiency, cost effectiveness, and accountability in processing claims filed against the State for workers' compensation benefits. This study was requested in response to legislative concern about expenditures and complaints about the processing of state employees' claims.

Like other employers, Hawaii state government is responsible for providing workers' compensation benefits to its employees who are injured on the job. Over the past five years, the State's expenditure for these benefits has increased from over \$13.5 million to more than \$25.6 million. In March 1995 the Legislature made an emergency appropriation of \$5.5 million to cover remaining claims for FY1994-95.

We found that State government has taken significant steps to better control the cost of workers' compensation claims by its employees. However our study found that these efforts have not yet produced an integrated workers' compensation *system*. No one department is fully accountable for overseeing, coordinating and reporting on claims for and costs of workers' compensation for all State employees. Responsibilities are fragmented among various agencies. State agencies are currently bogged down in processing claims. The State lacks standard guidelines and policies and procedures for claims management. "User friendly" information is needed.

Better management information is also needed. The lack of complete and accurate information on the State's claims and expenditures has hindered efforts to meet established accounting standards. As a result, the State could receive a qualified opinion in its *Comprehensive Annual Financial Report*.

Workplace safety and return-to-work programs achieve savings by reducing employee injuries and by returning injured employees back to work as soon as possible. We found that emphasis on safety and return-to-work programs varies among agencies. These programs should be an integral part of a workers' compensation system.

Hawaii's workers' compensation activities for state employees could benefit from strong leadership in providing effective oversight, coordinating agencies' responsibilities as employers, and compiling, analyzing and reporting needed



information. The advantages of centralization outweigh its disadvantages. We believe that the Department of Human Resources Development is the appropriate choice as system leader since it already centrally manages claims for many state agencies in the interests of cost control. The department will need additional resources to take over central responsibility.

Recommendations and Response

We recommend that the Legislature consider amending Chapter 26-5, HRS, the law establishing the Department of Human Resources Development, to assign responsibility for central oversight, coordination, and reporting for workers' compensation activities related to claims by state employees. The department would be held accountable and would have full authority and responsibility for: a) setting policies, goals and objectives for the system; b) managing workers' compensation claims on a centralized basis for all agencies in the executive, judicial and legislative branches; c) compiling and analyzing complete and accurate workers' compensation claim and expenditure information; d) integrating, coordinating and monitoring workplace safety and return to work programs; e) evaluating the costs and benefits of innovative cost control strategies; and f) developing a brochure which clearly and simply explains the entire claims process for all state employees.

The Department of Human Resources Development had numerous comments. The department is interested in centralizing the executive branch, but expressed concerns about handling all state cases due to the constitutional separation of the executive, legislative and judicial branches. The department is investigating new integrated personnel, workers' compensation and payroll information systems. The Department of Labor and Industrial Relations generally agreed with our conclusions. It agreed that safety and prevention programs are key components to reducing workers' compensation costs, and that efficient case management contributes to cost savings. The Judiciary does not agree with the recommendation to centralize its workers' compensation program under the Department of Human Resources Development. Besides noting that it is a separate and autonomous branch of government, the Judiciary maintains that the effectiveness of its system argues for its system's continued independence. Several of these agencies' clarifications have been incorporated into the report.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830