

OVERVIEW

Audit of the Workers' Compensation Payment Process in State Agencies

Report No. 01-03, February 2001

Summary

Hawaii's workers' compensation law was established to provide benefits in a prompt and accurate manner to employees who sustain a work-related injury or illness. Over the years, numerous concerns have been raised about the State's administration of workers' compensation claims for its own employees. Because of these concerns and problems, the Office of the Auditor initiated this review of the workers' compensation payment process in state agencies.

The Department of Labor and Industrial Relations has the overall responsibility of administering the workers' compensation law including its effective execution and supervision of prompt and accurate compensation payments. Workers' compensation claims are managed by in-house staff of the employing agency, the State Workers' Compensation Division of the Department of Human Resources Development, or a private company employed to manage claims. In FY 1998-99, the State had approximately 3,100 open claims with payments related to these claims totaling over \$33,000,000.

Our review focused on the four state agencies with the largest number of open workers' compensation claims: the Department of Human Resources Development, the Department of Education, the University of Hawaii, and the Judiciary. Together, these four agencies represent about 97 percent of the State's total number of open claims.

We found that workers' compensation benefits are neither timely nor accurate. We found delays in each step of the workers' compensation claims process. For example, fifty percent of the injury reports (WC-1) we reviewed were filed an average of 25 days after they were due. Moreover, disability payments were late in 65 percent of the cases we reviewed for an average delinquency of about eight months. In one case, a claimant from the Department of Education waited for over 14 years to have her disability payment processed.

We also found errors and discrepancies in disability calculations for 36 percent of the cases we reviewed. At the Department of Human Resources Development, some of these errors resulted in overpayments of \$520 and \$155 to the claimants. Payments for disability also remained outstanding long after being authorized by the workers' compensation office. At the Department of Education, we found a total of \$133,000 in unprocessed disability payments. In one case, the claimant was waiting for over \$40,000 in disability payments while another claimant was due over \$14,000. When we brought the outstanding cases to the attention of the department, we noted that three of the claimant's disability payments were processed the next day.



Finally, we found that payments for claimants' medical services exceeded allowable amounts. Based on work performed by our consultant, ADP Integrated Medical Solutions, we found that the agencies we reviewed overpaid medical bills by \$30,871 or 56 percent of a sample of 108 bills reviewed.

Recommendations and Responses

We recommended that state workers' compensation managers improve their claims management to ensure the timely and accurate payment of benefits to injured state employees. We also recommended that the Department of Labor and Industrial Relations 1) address delays in processing workers' compensation payments by reducing the amount of time to schedule administrative hearings and issue decisions; 2) seek an amendment to Section 386-95, HRS, to require workers' compensation annual reports to be filed by January 31st of the next year after the calendar year has ended; 3) establish a system to identify violations of Chapter 386, HRS, and 4) monitor and assess penalties to ensure compliance with the workers' compensation law.

The Department of Human Resources Development agreed with some of our findings and disagreed with others. The department disagreed with our finding that temporary disability payments were late. The department also disagreed with our finding regarding errors and discrepancies in disability payments and overpayments for medical services.

The Department of Labor and Industrial Relations did not agree with our finding that hearing decisions were issued late.

The Department of Education did not specifically respond to our findings. Instead, the department cited initiatives the department is undertaking to improve on its management of workers' compensation claims.

The University of Hawaii also did not respond directly to any of our findings. Instead, it offered several points of clarification on some of the findings and conclusions in our report.

The Judiciary agreed with some of our findings but not others. The Judiciary did not elaborate nor provide a response to the findings with which it disagreed.

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