OVERVIEW

Management Audit of the Disability Compensation Division and A Study of the Correlation Between Medical Access and Reimbursement Rates Under the Medical Fee Schedule

Report No. 02-07, March 2002

Summary

This audit and study was conducted pursuant to Senate Concurrent Resolution No. 147, S.D. 1 of the 2001 Regular Session. The resolution requested the Auditor to conduct a management audit of the Department of Labor and Industrial Relations' Disability Compensation Division and a study of whether an injured employee's access to medical care is being curtailed due to the practice of tying reimbursement rates to the medical fee schedule.

The division employs about 124 employees and administers benefit programs that provide health care and economic relief to workers for on- or off-the-job injuries and illnesses. These benefit programs are the workers' compensation, temporary disability insurance, and prepaid health care described in the Hawaii Revised Statutes, Chapters 386, 392, and 393, respectively.

We found that the division's internal control system contains some serious deficiencies affecting fiscal accountability and if not corrected, could permit fraud to go undetected. For example, the director lacks policies over the waiver of penalties for violations of the workers' compensation law. During FY1999-2000 and FY2000-01, the division administrator waived $950,000 of over $1.2 million in penalties without approval of the director. In addition, we found the division's position descriptions did not reflect the actual duties of staff managing the Special Compensation Fund. We found some staff performing work functions unrelated to their position description and some functions performed by staff outside the division. Furthermore, we found financial reporting of penalties and reimbursements from employers was piecemeal and of questionable usefulness. For example, the division had no single computer system to maintain statewide information on penalties nor one financial report that presented total receivables for statewide penalties assessed by the division. Effective internal controls help to ensure that an organization achieves its goals, produce accurate and reliable financial reports, and safeguard its assets.

We also found that the division invested over $750,000 for a new computer system without an updated departmental information systems plan and an appropriate steering committee, and failed to integrate the system with its strategic plan and goals. Consequently, much of the division's financial reporting system continues to be maintained manually and the accuracy, reliability, and usefulness of any computer data is highly questionable. For instance, we found that a $10,000 penalty assessment did not appear on the department's Administrative Services Office records.

Finally, we found that weak oversight by the director has resulted in serious management issues for the division and its administrator. For the audit, we conducted a survey of the division's employees to assess morale and office culture. With a response rate of about 70 percent, we found that over 60 percent did not trust the administrator, almost 41 percent reported morale within the division was poor, and 35 percent felt their personal morale was low. In addition, over 52 percent felt that the administrator had favorites and almost 25 percent of respondents felt improprieties occurred in the division. Low morale often prevents an organization from operating effectively and efficiently.

The Legislature also requested that we study concerns regarding injured workers being denied access to medical services under the current workers' compensation law. In our study, we found no significant evidence to demonstrate that injured workers' access to medical care was curtailed by tying reimbursement of medical services to the Medicare fee schedule. We found that current reimbursement rates do not significantly impact the provision of medical services, do not significantly contribute to the departure of providers from the state, and are not unreasonable. We also found that use of the Medicare reimbursement rate is widely accepted by other states, easy to implement, and cost-beneficial. Comprehensive increases in the fee schedule are unnecessary as the law allows the director of labor to adjust the fee schedule to address inequities. However, legal and practical barriers result in inefficiencies and cause the adjustment process to be ineffective.

Recommendations and Response

We recommended that the director of labor implement written policies over the penalty waiver process, complete the department's information systems strategic plan, and exercise adequate oversight over the division administrator. Oversight would include establishing a plan for the administrator to improve on the division's internal controls, the information systems, and the morale of staff within the division. We also recommended that the director evaluate the administrator's compliance with the plan.

To address practical barriers in the medical fee adjustment process, we recommended that the director of labor allocate sufficient resources to obtain statistically valid surveys, implement mechanisms to obtain information from health care providers, and educate providers about the fee adjustment process. To address the legal barriers, we recommended that the director seek an exemption from the state Small Business Regulatory Flexibility Act of 1998 for the fee adjustment process. The current law requires an additional, extensive impact statement and review process that adds more than a year to the fee adjustment process.

The Department of Labor and Industrial Relations generally agreed with our audit recommendations and noted that it has implemented or will be implementing procedures to comply with the recommendations.

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