



May 23, 2014

The Honorable Joseph Souki
Speaker of the House of Representatives
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear Mr. Speaker:

This letter is our final report on Act 97, Session Laws of Hawai'i 2013, which required the Auditor to assist the director of labor and industrial relations in the administrative adjustment of the workers' compensation medical fee schedule. The Auditor was to help identify: 1) the medical or health care services or procedures for which fee adjustments are necessary to ensure that injured employees have better access to treatment; and 2) a methodology for conducting the statistically valid surveys of prevailing charges that are necessary for adjustment of the fees. In addition, we were to recommend to the director and the Legislature a formalized process for the mandatory periodic review of the adequacy of the medical fee schedule.

We submitted our methodology to the Legislature and the director in our December 2013 Report No. 13-10, *A Report on Methodology for the Department of Labor and Industrial Relations' Workers' Compensation Medical Fee Schedule*. After collaborating with the Department of Labor and Industrial Relations (DLIR) and providing an opportunity for review and comment on our report prior to its issuance, the director supported our proposed methodology.

Act 97 also required the Auditor to help conduct a survey of prevailing charges and recommend the appropriate fee adjustment based on survey results. We completed this work ahead of its required deadline of June 1, 2014, by delivering the following two products to the director:

1. **Policies and procedures:** We delivered to DLIR draft policies and procedures to implement our proposed methodology and identify medical or health care services or procedures needing fee adjustment. The policies and procedures were submitted to the director on May 23, 2014.
2. **Implementation consultation:** In January 2014, we collaborated with the director and DLIR staff to determine each party's responsibilities in conducting the survey of prevailing charges. All parties agreed it would be a joint effort between the Office of the

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Auditor and DLIR's Research and Statistics (R&S) Office. R&S collected and analyzed the data and we provided guidance and conducted support activities to ensure proper implementation of the methodology for the 2015 medical fee schedule. In May 2014, R&S completed its amended fee schedule based on the methodology and submitted its analysis and proposed schedule to our office, which we then delivered to the director.

In order to implement the methodology on an annual basis, our report recommended the addition of two positions within the department. We also recommended that a trend analysis be performed to assess whether the methodology affected access to medical treatment for workers' compensation cases and issued a request for proposals (RFP) for this work in March 2014.

Both recommendations, including appropriations and other statutory amendments, were included in House Bill 1974 (HB1974) of the 2014 legislative session. Unfortunately, the bill—and appropriations needed for staffing and the trend analysis—failed. Lacking the funding for staffing to support the annual fee schedule work, it is within the director's discretion to update the fee schedule using the results of our medical fee schedule methodology. Also, lacking money for the trend analysis, we cancelled the RFP in May 2014.

With the delivery of this final report, we have completed our responsibilities under Act 97, SLH 2013. Please do not hesitate to contact me should you have any questions.

Sincerely,



Jan K. Yamane
Acting State Auditor



May 23, 2014

The Honorable Donna Mercado Kim
Senate President
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President:

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The Honorable Donna Mercado Kim

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