

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Audit of the Special Compensation Fund of the Workers' Compensation System

Summary

This audit was prepared in response to House Concurrent Resolution No. 284, Senate Draft 1 of the 1996 Regular Session which requested that the State Auditor conduct a management audit of the Special Compensation Fund of the workers' compensation system. Several state agencies are involved in the administration of the fund which provides workers' compensation benefits in special circumstances. The resolution expressed concern about the multiple jurisdictions involved, and asked the Auditor to determine whether the fund may function more effectively and efficiently as a separate entity with its own administrator and staff devoted solely to its specific purposes or placed in an administrative setting other than the Department of Labor and Industrial Relations.

The fund, established in Section 386-151, Hawaii Revised Statutes, is a revolving fund financed primarily by assessments against workers' compensation insurers or against employers who are self-insured. In certain circumstances, the fund pays workers' compensation benefits for injured employees instead of, or in addition to, payments by the employer or its insurer. For example, the fund may pay benefits when the employer defaults in paying. In calendar year 1995, the fund paid about \$15.5 million or 5 percent of all workers' compensation payments in Hawaii.

The Department of Budget and Finance is the custodian of fund moneys. The Department of Labor and Industrial Relations is the key administrative agency for the fund and is involved both in financing the fund and in adjusting claims against the fund. The Department of the Attorney General provides legal advice and representation to the fund. The Department of Commerce and Consumer Affairs collects certain assessments to support the fund, and the Department of Accounting and General Services issues checks for fund disbursements on orders from the director of labor and industrial relations.

We found that changing the fund's administrative structure is not warranted. The multi-agency approach is reasonable. Each department has an appropriate role, and interagency coordination appears good. We did find that the Department of Labor and Industrial Relations has an internal conflict of responsibilities because it acts both as administrator of the fund and adjudicator of workers' compensation claims against the fund. However, there is not enough justification to alter the fund's administrative structure to eliminate the conflict. A recent legislative decision to finance a workers' compensation facilitator unit through the fund should be reconsidered, though, in order to reduce conflicts within the labor department.

We also found that the fund has grown larger than necessary to meet its obligations. In FY1994-95, fund expenditures were about \$17.6 million, but revenues were about \$24 million. The Department of Labor and Industrial Relations needs to control the fund's balance more systematically.

Recommendations and Response

We recommend that the existing administrative structure of the Special Compensation Fund be left as is. However, the Legislature, if it continues to fund the new Workers' Compensation Benefits Facilitator Unit in the Department of Labor and Industrial Relations, should do so not from the Special Compensation Fund but from the general fund.

We also recommend that the Department of Labor and Industrial Relations improve the management of the fund's balance by establishing a formula that more closely matches revenues and expenditures.

The Department of Labor and Industrial Relations is in general agreement with all of our findings and recommendations, and the Department of Accounting and General Services is in general agreement with our findings. The Department of the Attorney General did not comment on our recommendations, but explained some of the circumstances surrounding its representation of the Special Compensation Fund.

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