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STATE OF ARIZONA
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June 13, 2011

The Honorable Rick Murphy, Chair
Joint Legislative Audit Committee

The Honorable Carl Seel, Vice Chair
Joint Legislative Audit Committee

Dear Senator Murphy and Representative Seel:

Our Office has recently completed a 24-month followup of the State Compensation Fund regarding the implementation status of the 16 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in April 2009 (State Compensation Fund No. 09-05). As the attached grid indicates:

- 15 have been implemented, and
- 1 is in the process of being implemented.

The Fund is being terminated as a state agency. Laws 2010, Ch. 268, continued the Fund for two years and required its Board of Directors to establish a successor corporation on or before January 1, 2013. Laws 2011, Ch. 157, conformed state statutes to reflect the termination of the Fund. Therefore, unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Fund's efforts to implement the recommendations from the April 2009 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:sjs
Attachment

cc: Donald A. Smith, President and Chief Executive Officer
State Compensation Fund

Judith Patrick, Board Chair
State Compensation Fund

State Compensation Fund

Auditor General Report No. 09-05

24-Month Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Fund should continue and enhance efforts to improve its claims expense-to-premium ratio

1.1 The Fund should consider applying stricter standards of coverage so it provides insurance to only those companies with loss histories within reasonable industry standards and where reasonable safety improvement efforts are effective.

Implemented at 12 months

1.2 The Fund should continue to work with the Legislature to develop legislation to change state statutes to establish that any medical charges not covered under the ICA fee schedule and not from a medical provider within a carrier's medical network shall be based on the usual and customary reimbursement rates that prevail in the same community for that medical service.

Implemented at 12 months

1.3 The Fund should continue to encourage policyholders to direct injured workers to the Fund's network providers, when appropriate, for their first medical treatment.

Implemented at 12 months

1.4 The Fund should continue working to make improvements to its provider network through efforts to recruit additional providers and identifying areas of the State in need of additional providers.

Implemented at 12 months

Finding 2: Fund should continue to improve claims management by better aligning itself with recommended practices

2.1 The Fund should re-examine its consultant's recommended criteria for when to assign claims to lost-wages claims handlers and adopt additional criteria, if it determines that doing so would help avoid payment delays arising from reassigning claims.

Implemented at 12 months

2.2 The Fund should examine its policies, training, and oversight functions to determine why claims handlers fail to adequately complete three-way contact. Based on the results of its findings, the Fund should modify its oversight and training practices accordingly and ensure that the three-way contact and claims investigations are completed in a timely manner.

Implemented at 24 months

Recommendation	Status/Additional Explanation
<p>2.3 To help ensure effective case management, the Fund should:</p> <ul style="list-style-type: none"> a. Require documented action plans for all claims with significant costs, and b. Review documented action plans as part of its best practices reviews 	<p>Implemented at 12 months</p> <p>Implemented at 12 months</p>
<p>2.4 The Fund should implement the external consultant's recommendation that it contact injured workers by phone, in addition to the required letter, to check on his/her work status and job search when applicable.</p>	<p>Implemented at 12 months</p>
<p>2.5 To help ensure QA reviews are used to improve statutory compliance, the Fund should:</p> <ul style="list-style-type: none"> a. Examine its review policies, and develop and implement an effective review process that provides fund management with trends in claims management and that can be used to improve claims handlers' performance; b. Provide documentary evidence of this supervisory review; and c. If appropriate, develop an action plan for improvement based on the results. 	<p>Implemented at 12 months</p> <p>Implemented at 12 months</p> <p>Implemented at 24 months</p>
<p>2.6 To better ensure timely payment of lost-wages claims, the Fund should:</p> <ul style="list-style-type: none"> a. Develop and implement policies regarding actively working to obtain medical documentation; b. Establish an internal standard for payment timeliness when eligibility for lost-wages compensation cannot be determined within 21 days of an ICA notification date; and c. Modify its QA review to evaluate whether claims handlers are following the policies and meeting the internal standard. 	<p>Implemented at 12 months</p> <p>Implemented at 12 months</p> <p>Implemented at 24 months</p>
<p>2.7 To ensure the Fund's reorganization efforts are on target and effectively bringing the Fund in line with recommended practices in claims management, the Fund should perform an internal audit or commission another external claims review to measure progress against statutory compliance and recommended practices in claims management.</p>	<p>Implementation in process The Fund's Internal Audit Division included a review of the Claims Division in its 2011 Internal Audit Plan. The Fund's Board of Directors approved the plan on November 16, 2010. The internal audit is scheduled to take place in the second and third quarters of calendar year 2011.</p>