

# Joint Legislative Audit Committee

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## California Legislature



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Letter Report 290

February 7, 1977

Honorable Mike Cullen  
Chairman, and Members of the  
Joint Legislative Audit Committee  
Room 5144, State Capitol  
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a resolution of the Joint Legislative Audit Committee, we have examined the claims processing procedures of the State Compensation Insurance Fund. The purpose of the examination was to determine whether workers' compensation claims involving state employees were being processed as compensable in cases where the cause of injury was nonindustrial.

This examination was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code. It does not constitute an examination of any financial statements in accordance with generally accepted auditing procedures. We therefore do not express an opinion on the financial statements of the Fund. Based upon the preliminary survey, in our opinion, an audit of the Fund is not warranted at this time.

### Background

The State Compensation Insurance Fund is a self-supporting, independent state agency. It is headquartered in San Francisco and operates out of 19 district offices located throughout the State. The Fund is organized for the primary purpose of providing insurance coverage to employers against compensable industrial injuries to their employees. It operates in competition with other insurance carriers in the State, and it is the express intent of the Legislature that the Fund shall ultimately become neither more nor less than self-supporting.

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Sections 11870 and 11871 of the Insurance Code permit state agencies to cover their liability for workers' compensation costs by electing to be self-insured, or by purchasing an insurance policy from the Fund. If the state agency elects to be self-insured, the Fund provides claims adjustment services in accordance with a master agreement between the Fund and the Department of General Services.

The Auditor General received information indicating that claimants employed by self-insured agencies were receiving benefits for injuries known by the Fund to be nonindustrial in origin. It was alleged that state cases were not processed by the Fund with the same diligence as cases covered by a Fund policy. The processing differences allegedly arose out of the fact that payments for policy cases would be totally absorbed by the Fund, while in state cases the Fund would be reimbursed the total of medical and benefit payments plus a fee for the adjustment service by the employing agency. The Fund would therefore have less incentive to assure compensability of an injury prior to making payments.

#### Claims Processing Procedures

The allegation of a different adjustment standard being applied to state cases by the Fund resulted in an examination of the claims processing procedures. The procedures are basically the same in all 19 district offices of the Fund. When an injury is reported and verified, a claims file is prepared and routed to the appropriate claims adjuster. The claims manager at each district office is responsible for assigning claims to adjusters. In some offices the state cases are divided among the adjusters and included in their regular policy caseload. Other districts assign state cases primarily to one adjuster. The adjuster's responsibilities include:

- securing adequate medical care for the injured employee,
- verifying that the injury is compensable,
- ensuring proper and timely payment of benefits and expenses, and
- generally taking actions to minimize the ultimate cost of the injury.

The adjuster relies upon medical evaluations to determine whether an injury is compensable, the extent to which an employee has suffered a permanent disability, and when an injured employee is able to return to work. In cases where the adjuster refuses or discontinues benefits and a

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conflict arises between the Fund and the injured employee, the employee may decide to file an application for a hearing with the Workers' Compensation Appeals Board (WCAB). It is also possible for the injured employee to file an application to the WCAB without ever applying to the Fund for benefits. In these cases, if the WCAB decides the case in favor of the injured employee, it directs the Fund to make the necessary payments. Section 3202 of the Labor Code directs the WCAB to liberally construe provisions of the workers' compensation law. Courts have interpreted this to mean that cases should be decided in favor of the injured employee where there is doubt as to the claimant's entitlement or continued entitlement to benefits. Our survey did not include a study of WCAB decisions, but it is clear that the Fund does not have final authority to disapprove payments of workers' compensation benefits and related costs. As a result, claimants with injuries believed to be noncompensable by the Fund can and do receive temporary benefits, permanent awards, and payment of medical expenses.

#### Billing to State for Adjustment Services

The allegation of a financial incentive for the Fund to apply less rigorous adjustment standards to state cases was made without considering current information. In past years, reimbursement to the Fund by state agencies was determined by applying a percentage (12-1/2 percent) to the amount of compensation benefits paid.<sup>1/</sup> In this situation, the more money paid out by the Fund on behalf of state agencies, the more it would receive for the adjustment service. Beginning with fiscal year 1976-77, the Fund is reimbursed based upon the cost of service provided to the state agency. The cost is calculated according to a formula derived by a national CPA firm and included in the master agreement by the Insurance Office of the Department of General Services.

#### Conclusions and Recommendations

Our examination did not reveal a separate standard of adjustment being applied to state cases. Also the current billing process eliminates the incentive which may have existed in the past to apply a separate adjustment standard to state cases. For these reasons we find that the

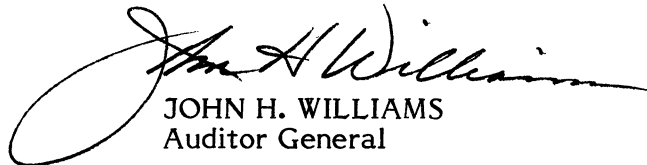
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<sup>1/</sup> In the case of California Highway Patrol officers, the formula was 35 percent of medical benefits paid.

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allegations are not supported by facts and, in our opinion, an audit of the  
Fund is not warranted at this time.

Respectfully submitted,



JOHN H. WILLIAMS  
Auditor General

Staff: Kurt R. Sjoberg  
Michael L. McGarity

**STATE**  
COMPENSATION  
INSURANCE  
**FUND**

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EXECUTIVE OFFICES

February 2, 1977

Mr. John H. Williams, Auditor General  
Office of the Auditor General  
925 L Street, Suite 750  
Sacramento, California 95814

Dear Mr. Williams:

We found Letter Report #290 on the State  
Compensation Insurance Fund to be quite  
fair and accurate; however, there are some  
minor changes we would suggest for  
incorporation in the final draft. These  
are included in the attached exhibit.

Sincerely,



President

EAS:so  
Attach.

Billing to State for Adjustment Services

The allegation of a financial incentive for the Fund to apply less rigorous adjustment standards to state cases was made without considering current information. In past years, reimbursement to the Fund by state agencies was determined by applying a percentage (12-1/2 percent) to the amount of compensation benefits paid.<sup>1/</sup> In this situation, the more money paid out by the Fund on behalf of state agencies, the more it would receive for was considered to be directly proportional to the cost of the adjustment service. Beginning with fiscal year 1976-77, the Fund is reimbursed based upon for the cost of service. services provided to the state agency-agencies at a flexible rate determined by current adjustment costs. The cost is calculated according to a formula derived by a national CPA firm and included in the master agreement by the Insurance Office of the Department of General Services. This CPA firm calculated that the overall costs under the present and former agreements are approximately the same.

Conclusions and Recommendations

Our examination did not reveal a separate standard of adjustment being applied to state cases. Also the current billing process eliminates the any incentive which may have existed in the past to apply a separate adjustment standard to state cases. For these reasons we find that the allegations are not supported by facts and, in our opinion, an audit of the Fund is not warranted at this time.

<sup>1/</sup> In the case of California Highway Patrol officers, the formula was 35 percent of medical benefits paid.