



May 2, 2008

Ms. Ann Barsotti, Deputy Director
California Department of Transportation
Administration and Information Technology
1727 30th Street
Sacramento, CA 95816

Dear Ms. Barsotti:

Final Report—Review of the California Department of Transportation, Division of Human Resources' Administration of Workers' Compensation System

Enclosed is the final report on our review of the California Department of Transportation, Division of Human Resources, Reasonable Accommodation/Workers' Compensation Branch's (Branch) administration of the workers' compensation system. The Department of Finance, Office of State Audits and Evaluations, performed this review in accordance with the Budget Act of 2007, Chapter 171.

The Branch's response to our observations is incorporated into this final report. The Branch agreed with our observations and we appreciate its willingness to implement corrective actions. The observations and recommendations in our report are intended to assist the Branch in enhancing compliance with the Master Agreement for the Workers' Compensation Claims Administration (Master Agreement) between the State Compensation Insurance Fund (SCIF) and the Department of Personnel Administration, and improving the internal control over the administration of the workers' compensation system. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the Branch's assistance and cooperation with this review. If you have any questions, please contact Frances Parmelee, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

A P_{ERFORMANCE} R_{EVIEW}

California Department of Transportation
Division of Human Resources

Workers' Compensation System Administration

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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EXECUTIVE SUMMARY

Pursuant to the Budget Act of 2007, the Department of Finance, Office of State Audits and Evaluations (Finance), reviewed the California Department of Transportation, Division of Human Resources, Reasonable Accommodation/Workers' Compensation Branch's (Branch) administration of the workers' compensation system.

Overall, the Branch complies with its responsibilities outlined in the Master Agreement for the Workers' Compensation Claims Administration (Master Agreement) between the State Compensation Insurance Fund (SCIF) and the Department of Personnel Administration. Furthermore, the Branch has taken efforts to strengthen communication and monitoring of claims. However, the following observations expose the Branch to the risk of noncompliance within the Claims Management and Return to Work Services sections of the Master Agreement.

Claims Management: Various claims management controls could be improved to ensure adherence to the Master Agreement. Specifically, the Employee's Claim for Worker's Compensation Benefits (SCIF 3301) is untimely provided to the injured employee resulting in late submissions of the SCIF 3301 and the Employer's Report of Occupational Injury or Illness (SCIF 3067) to SCIF. The Branch should implement a tracking mechanism to capture the completion and submittal dates of these forms.

Procedures governing the preservation and security of evidence are not documented, but the Branch states they are currently under development. Once documented, the Branch should maintain the procedures within a manual, review them regularly, and update as necessary.

Return to Work Services: The Branch's Southern region's record keeping needs improvement. Specifically, due diligence in maintaining and monitoring disability claims is not performed. To ensure consistent business practices between both regions, require the Southern region to abide by the same policies and procedures followed by the Northern region.

Finance met with Branch management and staff to discuss opportunities for enhancements. This report is intended to assist management in preventing and mitigating risks, and improving operations. To strengthen operations, the Branch should develop a plan to address the observations and recommendations noted in this report. For additional information related to the observations discussed above, see the *Results and Recommendations* section of the report. For informational purposes, the Appendix provides an overview of the processes and responsibilities for administering workers' compensation disability claims.

BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

Background

The California Department of Transportation (Caltrans), Division of Human Resources, Reasonable Accommodation/Workers' Compensation Branch (Branch) is responsible for administering the workers' compensation system in accordance with state and federal guidelines. The workers' compensation system provides benefits to employees for work-related injuries or illnesses. These benefits may include medical treatment costs, temporary disability payments for lost wages, permanent disability payments that compensate the injured employee for diminished future earning capacity, and death benefits.

Under the Master Agreement for Workers' Compensation Claims Administration (Master Agreement) between the State Compensation Insurance Fund (SCIF) and the Department of Personnel Administration (DPA), SCIF acts as California's adjusting agent and the Branch is responsible for the costs associated with the claims. The Branch has designated Return-to-Work Coordinators (RTWC) who are responsible for the following:

- Managing the workers' compensation claims for Caltrans.
- Advising supervisors and employees about the workers' compensation process and the benefits to which an injured employee may be entitled.
- Assisting injured or ill employees in returning to work as soon as medically feasible.

Caltrans is comprised of 20 districts, divisions, or offices. Currently, the Branch has 8.5 RTWCs in total: 6 at the Sacramento headquarters and 2.5 in Irvine, California. The Sacramento headquarters assist the Northern region whereas the Irvine location primarily assists the Southern region.

Between July 1, 2004 through December 31, 2007, approximately 7,044 workers' compensation claims (1,798 active claims and 5,246 closed claims), which include both non-disability and disability claims, were filed. The non-disability claims are those claims classified as minor injuries in which only medical benefits are paid and no loss time is claimed. Disability claims are claims in which there is loss time and medical and compensation benefits are paid. The individual districts are responsible for handling the non-disability claims; however, when SCIF determines a claim to be a disability, the claim is elevated to a RTWC for further processing.

Although the Branch is ultimately responsible for paying the workers' compensation claims, a significant amount of risk lies within SCIF because it is responsible for approving and denying a claim and directing medical contacts, medical payments, disability payments, and death benefits. Generally, SCIF notifies the Branch when industrial disability leave (IDL) or temporary disability (TD) occurs and the Branch will process the employee's claims accordingly. Upon notification of an injured employee's work status, the RTWC will then begin searching for a position that will accommodate the employee. The risk of not locating another position for an injured employee rests solely with the Branch.

Objectives and Scope

Pursuant to the Budget Act of 2007, Chapter 171 of the Statutes of 2007 (4265-001-3098, Provision 2), the Department of Finance, Office of State Audits and Evaluations (Finance), performed a review of Caltrans' administration of the workers' compensation system. The objective of our review was to determine to what extent the Branch complies with the Master Agreement.

The review did not include an evaluation of SCIF, the contracting agent responsible for approving or denying a workers' compensation claim and assessing liability. In addition, the review did not include an examination of the 12 districts' Safety and Health Offices. Furthermore, we did not review the efficiency and effectiveness of the Branch operations.

Methodology

To assess Caltrans' compliance with the Master Agreement, interviews were conducted with staff at DPA, SCIF, Branch management, and both the Headquarters and the Irvine locations to gain an understanding of the following:

- Roles and responsibilities of Caltrans, SCIF, and DPA.
- Workers' compensation claims processes.
- Workers' compensation payroll distribution processes.
- Reentry of employees into the workforce after an injury or illness.
- Systems used to track and monitor claims and workforce reentry.

Additional steps were performed to meet the review's objectives:

- Review of the Master Agreement to gain an understanding of the requirements, roles, and responsibilities.
- Identification of high-risk areas related to the claim and distribution processes and the return to work functions.
- Selection of a statistical sample—526 claims—to determine compliance with the Master Agreement and validity of the claims. From that sample of 526 claims, a judgmental sample of 40 claims was selected to verify payroll benefits paid after obtaining SCIF authorization.

Recommendations were developed based on the evaluation of data and documentation provided, and discussions with Branch staff. For informational purposes, the Appendix provides an overview of the processes and responsibilities for administering workers' compensation disability claims. The review was performed during the period February 4, 2008 through April 11, 2008.

RESULTS AND RECOMMENDATIONS

Overall, the California Department of Transportation (Caltrans), Division of Human Resources, Reasonable Accommodation/Workers' Compensation Branch (Branch) complies with its responsibilities outlined in the Master Agreement for the Workers' Compensation Claims Administration (Master Agreement) between the State Compensation Insurance Fund (SCIF) and the Department of Personnel Administration. Furthermore, the Branch has taken efforts to strengthen communication and monitoring of claims. Our review presents opportunities for Branch management to correct identified observations and improve operation efficiency and effectiveness.

OBSERVATION 1: Claims Management Needs Improvement

The Branch does not utilize a tracking mechanism to document the presentation and submission of certain forms: the Employee's Claim for Worker's Compensation Benefits (SCIF 3301) and the Employer's Report of Occupational Injury or Illness (SCIF 3067). Without a tracking mechanism, Caltrans may not be aware of its noncompliance with the Master Agreement. Providing and submitting these forms timely to the appropriate parties ensures prompt handling of the claim and related benefits, and reduces Caltrans' exposure to legal risks.

For both the Branch's Northern and Southern regional districts, presentation and submission of the SCIF 3301 to employees and to SCIF were untimely. Presentation of the SCIF 3301 to the employee were as late as 146 and 349 days in the Northern and Southern regions, respectively. Although the Northern region had some files lacking sufficient documentation to determine timely submittal to SCIF, all 190 claims reviewed in the Southern region had insufficient documentation to make a determination. Further explanation of this condition is discussed in Observation #2. Our results summarized below are based on sample sizes of 336 and 190 claims for the Northern and Southern regions, respectively.

Untimely Presentation and Submission of SCIF 3301

Presentation to Employee	Northern Region	Southern Region
Total Days Late	991	833
Total Claims Late	75	22
Average Days Late	13	38
% of Claims Late	22%	12%

Submission to SCIF	Northern Region	Southern Region
Total Days Late	774	*
Total Claims Late	126	*
Average Days Late	6	*
% of Claims Late	38%	*

* =unable to determine due to insufficient documentation.

We also identified untimely submittal of the SCIF 3067 to SCIF in both regions. The Southern region submitted SCIF 3067s as late as 209 days. Our results summarized below are based on the same sample sizes used for our analysis of the SCIF 3301s.

Untimely Submission of SCIF 3067

Submission to SCIF	Northern Region	Southern Region
Total Days Late	1856	2202
Total Claims Late	156	113
Average Days Late	12	19
% of Claims Late	46%	59%

Section III B.05 of the Master Agreement states the Return-To-Work Coordinator (RTWC) or an appropriate departmental representative shall utilize a tracking method to document the dates SCIF 3301s and SCIF 3067s are completed and submitted to SCIF. Furthermore, Sections III B.02 and B.03 require the RTWCs to submit to SCIF completed SCIF 3301s within one working day of receipt from the injured employee and SCIF 3067s within five calendar days of the employer’s date of knowledge of injury, illness, or death. Additionally, RTWCs must ensure SCIF 3301s are provided to the injured employee within one day of the employer receiving notice of the injury, illness, or death.

Recommendation:

Implement a tracking mechanism or use the Worker’s Compensation Claim Tracking Worksheet provided in the Master Agreement.

OBSERVATION 2: Lack of Due Diligence of the Return-to-Work Coordinators

The RTWCs at the Branch’s Southern region do not regularly maintain disability claim files, which could result in ineffective claims monitoring. Without obtaining and maintaining all appropriate documentation from the District Safety Offices and SCIF, the RTWCs cannot effectively monitor claims and perform their requisite due diligence. Maintenance of the necessary documentation allows RTWCs to provide greater accountability and oversight over claims management.

Specifically, 42 percent (52 out of 123) of disability claims selected for review—with dates of injuries ranging between July 2004 to August 2007—contained insufficient documentation or did not have existing files at all. Caltrans’ procedures state once a claim is determined to be a disability claim, it is assigned to a RTWC and they are responsible for monitoring its administration, which is in alignment with Section II of the Master Agreement.

Recommendation:

Require the Southern region’s RTWCs to abide by the Branch’s oversight policies and procedures to ensure consistent business practices between the two regions.

OBSERVATION 3: Undocumented Procedures Regarding the Preservation of Evidence

The Branch does not maintain written procedures governing the preservation and security of evidence. Written procedures prevent duplication of work, omission of important functions, misunderstandings, and other situations, which might result in weakening the internal controls.

Section VII B.02 of the Master Agreement states that Caltrans is responsible for the preservation of all evidence and should have written procedures on securing such evidence. During this review, the Branch has taken efforts to develop appropriate written procedures; however, they were not available for our review.

Recommendation:

Document all operational procedures and maintain the procedures within a manual. Review the procedures regularly and update as necessary.

This performance review was conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require the review be planned and performed to obtain sufficient and appropriate evidence to provide a reasonable basis for the observations and conclusions based on the review objectives. The evidence obtained provides a reasonable basis for the observations and conclusions based on the objectives.

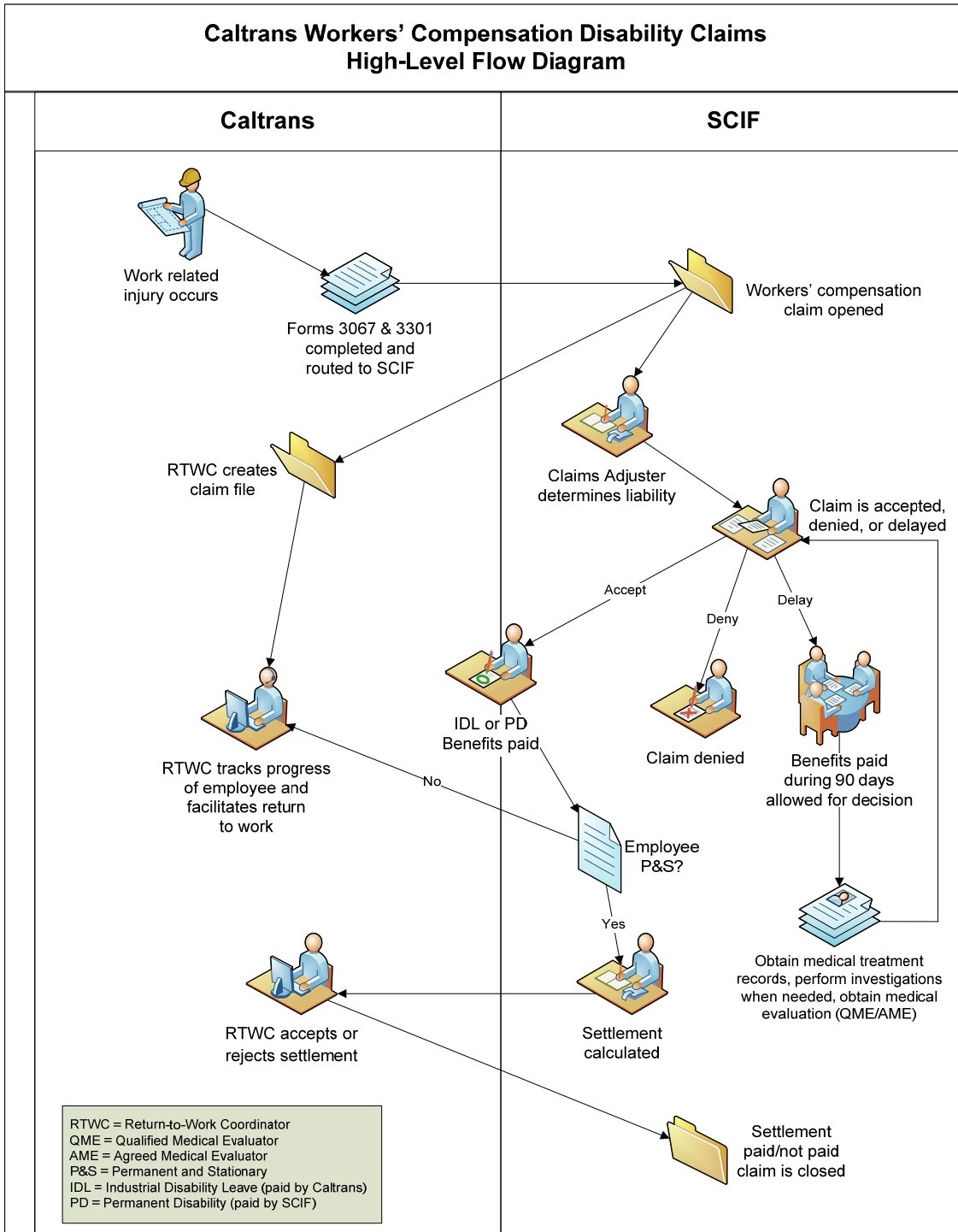
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Workers' Compensation Administration Process



BRANCH'S RESPONSE

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*Flex your power!
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April 25, 2008

Mr. David Botelho, Chief
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801,
Sacramento, CA 95814

Dear Mr. Botelho:

Thank you for the opportunity to review and address the issues raised in the draft report prepared by the Department of Finance, Office of State Audits and Evaluations. As stated in the Executive Summary, the Division of Human Resources, Reasonable Accommodation/Workers' Compensation (WC) Branch (Branch) overall complies with its responsibilities outlined in the Master Agreement. Additionally, the report indicates the Branch has taken efforts to strengthen communication and monitor claims. With regards to the three observations identified, the following address the issues referenced in the draft report:

OBSERVATION 1: Claims Management Needs Improvement

Recommendation: Implement a tracking mechanism or use the WC Claim Tracking Worksheet provided in the Master Agreement.

Response: On April 1, 2008, the Branch implemented a system to track the dates Employee's Claims for Workers' Compensation Benefits (SCIF 3301) and Employers' Report of Occupational Injury or Illness (SCIF 3067) forms are received.

OBSERVATION 2: Lack of Due Diligence of the Return-to-Work Coordinators (RTWCs)

Recommendation: Require the southern region RTWCs to abide by the Branch's oversight policies and procedures to ensure consistent business practices between the two regions.

Response: The northern office WC Branch Chief recently acquired the management responsibilities of southern region staff. Since that change, all WC Branch staff follow the same policies and procedures. To further maintain consistency, a transition plan is being developed to move all WC files from the southern office to Headquarters in Sacramento.

David Botelho, Chief
April 25, 2008
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OBSERVATION 3: Undocumented Procedures Regarding the Preservation of Evidence

Recommendation: Document all operational procedures and maintain them within a manual. Review the procedures regularly and update as necessary.

Response: The Branch developed instructions for documentation of operational procedures to ensure the preservation of evidence. These procedures outline the steps necessary to secure all evidence. The Branch staff provided training on these procedures to district personnel on March 11, 2008.

In addition to the observations identified above, the report states that WC forms are not provided timely. The Department identified this issue last year and has implemented corrective measures. For example, as of September 1, 2007, WC Roles and Responsibilities training was initiated as part of new supervisor training. A comprehensive PowerPoint training presentation is also available on the Health and Safety (H&S) website for all employees to view, and H&S-staff provide WC presentations ongoing to groups of employees.

It should be noted that the Department of Personnel Administration conducted a review of all State agencies regarding the timeliness of reporting the Employers' Report of Occupational Injury or Illness (SCIF 3067) to the State Compensation Insurance Fund (SCIF). Caltrans' timeliness exceeded all other state agencies by three days (see attached letter). With the implementation of the tracking system, the Branch will enhance compliance with the Master Agreement.

The Branch appreciates the efforts of your audit team to assist Caltrans to improve our internal controls and processes. If you have any questions, please contact Randy Weissman, H&S Office Chief, at (916) 227-2642.

Sincerely,

Randy Weissman / for Judy O'Day

JUDY O'DAY
Chief
Division of Human Resources

c: Ann Barsotti
Carolyn Pennington
Lori Dimberg

DEPARTMENT OF PERSONNEL ADMINISTRATION

BENEFITS DIVISION

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SACRAMENTO, CA 95811-7258

February 26, 2008

Department of Transportation
Randy Weissman
1727 - 30th Street
Sacramento, CA 95814

Dear Mr. Weissman:

The Department of Personnel Administration (DPA) works closely with the State Compensation Insurance Fund (SCIF) to track and monitor claim reporting time frames for the State agencies. At DPA's request, SCIF has compiled a report by State Agency and Agency Code of all claims filed for the period from July 2006 to July 2007. This report shows the amount of time that elapsed between the employer's date of knowledge of a claim and the date that SCIF was notified about the claim.

The average reporting time for a claim is currently at fifteen (15) days. Our data indicates that the Dept. of Transportation takes 12 days (an average of all Districts), to report a claim to SCIF.

We are deeply concerned about the length of time that it takes the State agencies to report claims to State Compensation Insurance Fund. These delays can reduce our ability to investigate and defend against questionable claims, increase expenses, and increase the risk of penalties. They can delay treatment for legitimately injured employees, and the resulting uncertainty is an incentive for employees to seek an attorney.

The subtotaled report by District for your agency is attached. If you would like the detailed report, please send an email to Keith Mentzer at the email address below.

SCIF offers a variety of ways for agencies to report a claim. Claims can be reported via the Internet, by calling a 24-hour toll free number or by submitting the SCIF 3067 and SCIF 3301 forms by mail or fax. As mandated by the Master Agreement, Departments are required to notify SCIF within five (5) calendar days of the employer's date of knowledge of injury. Our goal should be to report all injuries to State Fund within 24 hours of the employer's date of knowledge.

We anticipate compiling these reports annually and will deliver the reports directly to the Departmental Directors for those departments that experience above average reporting times.

We know that you share our concerns and look forward to hearing from you. If you have any questions, please contact me at (916) 445-9792 or keithmentzer@dpa.ca.gov.

Sincerely,

Original signed by:

Keith Mentzer
Workers' Compensation Manager