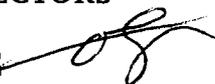




Metro™

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE 
CHIEF EXECUTIVE OFFICER

FROM: GREG KILDARE 
EXECUTIVE OFFICER RISK MANAGEMENT

SUBJECT: WORKERS' COMPENSATION LABOR CODE COMPLIANCE
AUDIT

ISSUE

Metro's Workers' Compensation program has been under audit by the California Department of Industrial Relations (DIR) as part of the DIRs random audit program of insurance companies and self-insured entities. DIR has found compliance problems for the audit calendar years of 2002, 2003 and 2004 related to the startup of Metro's self-administration unit in late 2001 and will assess administrative penalties when their final report issues in February/March. These penalties may be as high as \$500,000.

Under new management since the middle of 2004, Metro's workers' compensation unit substantially decreased the number of violations in 2004 and 2005 by instituting training, quality assurance procedures and staffing levels consistent with best practice.

BACKGROUND

The State's audit findings will not be released for at least another month. However, preliminary audit results indicate significant findings for claims reported in 2002, 2003 and 2004 will result in a failing score. In 2004, more than 12% of auditees failed a full compliance audit. The audit findings identified problems such as the late reporting of workers' compensation claims by the operating locations, improper payment of the 3-day waiting period at the operating locations, late submittal of benefit letters and other correspondence to claimants resulting in payment delays, late bill payments to medical providers and other vendors and incorrect disability payments.

Metro returned to self-insurance in September 2001 after being insured for three years with Travelers. Many of the findings noted by the auditors resulted from startup problems particularly as respects staffing deficiencies, inexperienced and under-trained staff, limited quality assurance measures, business practice problems (e.g., coordination with timekeeping) and coordination difficulties between Risk Management and line management.

The industry best practice for the number of claims an examiner can reasonably be expected to effectively manage is roughly 150. Caseloads for some examiners in early 2002 were as high as 300 and into 2003 caseloads regularly exceeded 200. Examiner caseloads at these levels made proactive claim management difficult and greatly increased the risk of errors. Under new management since the middle of 2004 the Risk Management workers' compensation claims unit has reduced caseloads to industry best practices levels through aggressive claims closure procedures.

Since then, more than 50% of the claims technical staff are new and highly qualified and the first set of workers' compensation desk procedures was implemented and was recently updated. All workers' compensation employees have been trained on these procedures. Regular training sessions are now conducted by both management and outside firms on topics including the labor code, medical management, new claim set-ups, the workers' compensation reform act, changes in the permanent disability statute, team building and many others.

New quality assurance procedures have been implemented including monthly random claim file audits by supervisors, weekly reviews of all indemnity payments all late claims received, all correspondence issued. Each new claim is audited for labor code compliance as respects a timely decision and initial payments and a quality assurance team of two senior examiners has been appointed. We have also completed a controlled self-assessment and Management Audit (MASD) has also been asked to facilitate a mock compliance audit early in FY07.

The audit also identified issues in which line managers were unaware of their obligations to report claims timely and the need for timely payment of statutory benefits. Business practice improvements such as the Transitional Duty Program, the implementation of an occupational network of first treatment facilities, changes in time reporting practices, training of line managers in prompt reporting of injuries, and improvements in the claims computer systems have greatly improved the prompt and accurate payment of industrial injuries.

Metro continues to maintain a strong and cooperative working relationship with the state auditors to correct all deficiencies. In that vein, the State Auditors have noted improvements made in claims administration over the last year.

NEXT STEPS

The auditors have indicated that they will recommend a future audit in 2 – 3 years to determine whether labor code compliance has improved. In addition, the State will be conducting extensive training with Metro staff to ensure compliance in future years. MASD will assist Risk Management in conducting a mock compliance audit in early fiscal 2007.