

HOUSE BILL REPORT

SSB 6030

As Reported By House Committee On:

Commerce & Labor

Title: An act relating to establishing a performance audit and operations review of the state workers' compensation system.

Brief Description: Establishing a performance audit and operations review of the workers' compensation system.

Sponsors: Senate Committee on Commerce & Labor (originally sponsored by Senators Schow, Goings, Anderson, Haugen, Horn, Rasmussen, Long and Oke).

Brief History:

Committee Activity:

Commerce & Labor: 3/24/97, 4/3/97 [DPA].

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: Do pass as amended. Signed by 9 members: Representatives McMorris, Chairman; Honeyford, Vice Chairman; Conway, Ranking Minority Member; Wood, Assistant Ranking Minority Member; Boldt; Clements; Cole; Hatfield and Lisk.

Staff: Chris Cordes (786-7103).

Background: The Department of Labor and Industries administers and regulates the state's industrial insurance system, including regulation of employers and groups who are qualified to self-insure their workers' compensation obligations. The department operates the industrial insurance state fund and adjudicates the claims of injured workers whose employers are insured by the state fund.

As part of the oversight of the industrial insurance system, a statutory Workers' Compensation Advisory Committee is charged with conducting a continuing study of the system. The committee includes business and labor representatives appointed by the director of the Department of Labor and Industries.

Summary of Amended Bill: The Joint Legislative Audit and Review Committee (JLARC), in consultation with the Workers' Compensation Advisory Committee and members of the Senate and House Commerce & Labor Committees, must conduct a

performance audit of the state workers' compensation system. The JLARC must contract, subject to the personal service contracts law, with a private entity that is not affiliated with an insurance company. The JLARC must consult with the Workers' Compensation Advisory Committee in designing the request for proposals from potential contractors and in choosing the contractor.

The audit must review:

- the organizational structure of the workers' compensation system and its effectiveness.
- management principles, process, and practices of the system.
- the program's taxation system, including collection, prioritization and distribution of revenues, and use of revenues.
- types of services and programs, and the level of cooperation and continuity between program and services.
- effectiveness in providing sure and certain relief to injured workers, in returning injured workers to work, and in meeting other system goals.
- the level of customer satisfaction.
- the current method used by the department to internally review the program's effectiveness and to respond to its findings.
- the manner in which the workers' compensation program coordinates its activities with other department programs and other agencies.
- the system's cost-effectiveness and efficiency compared to other private and public delivery systems.
- claims administration practices of the state fund, self-insured employees, and third-party administrators.
- any other item considered necessary by JLARC.

The department must actively cooperate with the JLARC in the audit and provide information and assistance as necessary. Funding for the audit, in the amount determined by JLARC, is from the nonappropriated medical aid fund and will be transferred through an interagency agreement.

The JLARC must report to the appropriate committees of the Legislature on its findings and recommendations, with an interim report by December 31, 1997, and a final report by August 1, 1998.

Amended Bill Compared to Substitute Bill: The amendment: (1) deletes references to a legislative advisory committee. The JLARC must consult with members of the Senate and House Commerce & Labor Committees; (2) makes the audit a review of the workers' compensation system and deletes the reference to a review of the program within the Department of Labor and Industries; (3) adds that the review of the department's coordination with other agencies must include the Board of Industrial Insurance Appeals and the Department of Health; (4) adds a review of claims

administration practices and the effectiveness of department sanctions in promoting best practices; (5) requires an interagency agreement for transferring the funds to pay for the audit; and (6) makes other technical changes.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: Many concerns have been expressed about claims management at the Department of Labor and Industries. This performance audit will provide the detailed analysis that everyone can use to assess the system and make recommendations. It will help evaluate the impact of the pilot projects on department performance.

Testimony Against: While having a performance audit makes sense, it is not clear why the audit includes a comparison with the private sector. It should be made clear that the Workers' Compensation Advisory Committee must agree to the choice of the contractor. The funding source could be a problem, since the results of the study could be counter to worker interests. Everyone seems to agree that claims management is a problem, but the scope of the study is beyond that issue. Whether or not the study goes forward, it is clear that more department claims managers are needed.

Testified: (In support) Douglas Connell, Department of Labor and Industries; and Clif Finch and Joanne Collier, Association of Washington Business. (With concerns) Robby Stern, Washington State Labor Council.