



Washington State Department of  
**Labor & Industries**

# **Tier 3 Audit Pilot: A Comprehensive Report**

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## Executive Summary

### Background

The Tier 3 audit pilot completes a two year pilot of the new audit reform model.

In June 2013, the Self-Insurance Audit Reform Advisory Committee was formed to develop an improved audit process. The committee was led by The Department of Labor and Industries (L&I) and was comprised of representatives from both business and labor.

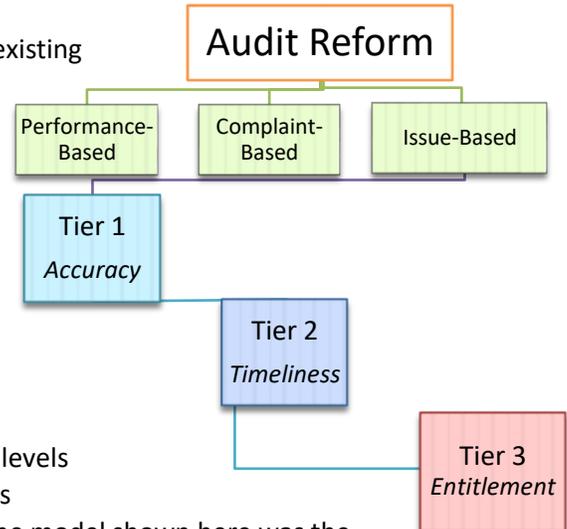
L&I in collaboration with this committee, has developed a new audit model. The new audit model focuses on areas of priority as recommended by business and labor, and is aimed to educate and promote compliance with Washington State Industrial Insurance Laws.

The new model is designed to substantially shorten the existing audit cycle from approximately five to six years, to just under two years to complete.

The new model consists of three distinct types of audits:

- Performance-based
- Issue-based
- Complaint-based

In addition, the performance-based audit includes three levels of review: Tier 1, Tier 2, and Tier 3. The level of review is determined by the performance in the preceding tier. The model shown here was the model used in the 2016-17 pilot. In our 2018-19 audit plan, the performance-based tiers will be the same, except that Tier 1 will focus on Timeliness and Tier 2 will focus on Accuracy.



## Summary of Activities and Findings

Self-Insurance Audit Reform consists of three types of audits: performance-based, issue-based and complaint-based. The performance based audit model has three tiers.

Tier 3 focused on the entitlement of time loss compensation and loss of earning power payments. This is important because the worker is entitled to sure and certain relief pursuant to RCW 51.04.010. The Tier 3 pilot ran from October 2017 through February 2018, during which time nine self-insured employers were reviewed.

The following criteria was developed to evaluate Tier 3 audits.

Result	Scenario
Pass	Equal to or greater than 80% payment of entitled benefits
Training	Between 60 and 79% payment of entitled benefits
Training with 6 Month Follow-Up Audit	Between 0 and 59% payment of entitled benefits
Performance Improvement Plan (PIP)	Less than five claims and did not meet passing threshold
No Action	Met passing threshold or had no audit eligible claims

## Audit Results

Of 9 employers audited:

- One employer passed.
- One employer did not pass Tier 3 and is required to participate in training provided by L&I.
- Three employers did not pass Tier 3 and are required to participate in training provided by L&I with a six month follow-up audit.
- Three employers did not pass the Tier 3 and are required to submit a PIP.
- One employer had no audit eligible claims.



## Lessons Learned

Having direct access to the Third Party Administrators online claims management systems allowed the audit review to proceed immediately.

Claim files, when provided for review via paper or online were often incomplete. The time required for the auditors to ask for additional information contributed to delays in review.

Examples of missing or incomplete documentation include:

- Loss of Earning Power (LEP) worksheets and supporting information
- Medical reports
- Claim-specific electronic or paper notes

Date stamping of documents was an issue in the following areas:

- No date stamp from employer.
- No date stamp from the third party administrator.
- Illegible date stamp.

Due to the issues identified above this made it difficult for the auditors to determine when the document was received

### *Future Opportunities*

Additional training or outreach should be provided to the employers reviewed to reinforce the need to:

- Date stamp documents.
- Determine if LEP is payable.
- Calculate LEP correctly (Wages at the Date of Injury, Current Wages, and Time-Loss Rate).
- Pay first 3 days of time loss if owed.

### *Conclusion of Findings*

The Tier 3 audit focused on entitlement (the amount of benefits paid). In Tier 3 we used five different mitigation methods depending on the individual results. This is explained in detail on page 2 of the report. We chose to use different mitigation methods so that we could provide the most meaningful tools to correct the issues identified. The audit team would like to thank all the employers and representatives that assisted in the completion of their individual audits.