

# Preparing for Your Self-Insurance Audit



Washington State Department of  
**Labor & Industries**

*Workers' Compensation Services*

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*This booklet is also available online at:*

[www.Lni.wa.gov/IPUB/207-110-000.pdf](http://www.Lni.wa.gov/IPUB/207-110-000.pdf)

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about the services we offer.*

[www.Lni.wa.gov](http://www.Lni.wa.gov)

Dear Self-Insured Employer:

As a self-insured employer, you have frequent contact with the Self-Insurance section of the Washington State Department of Labor & Industries (L&I). L&I regulates self-insurance programs to ensure that employees receive the same benefits as other injured workers in the state and self-insurance requirements continue to be met after certification. One method of regulation is a program compliance audit.

This booklet has been prepared to help you understand and prepare for an audit. It describes the audit process and provides answers to questions you might have about reporting and audit requirements.

We hope that you will find this information helpful. If you have any questions, please call your program compliance auditor or the program compliance unit at 360-902-6840.

— The Program Compliance Staff

# Introduction

## **What is the purpose of a program compliance audit?**

The Self-Insurance section of L&I conducts audits of self-insured businesses to determine whether you are complying with Washington state laws governing workers' compensation.

## **What can I expect?**

A program compliance auditor from L&I's Self-Insurance section will conduct the audit.

The first step will be to examine a selection of industrial injury claims at the location where your claims are administered. Following completion of the claim file examination, your Washington state locations will be visited. The auditor will ask you for a current list of addresses for your locations in Washington state, contact persons (with phone numbers) and the number of employees working at each location.

The auditor may visit any of these locations. The purpose of the visit is to ensure employers comply with requirements for:

- A self-insurance program.
- Reporting claim costs and worker hours.

After the audit, you will receive a report prepared by the program compliance auditor. Response to the auditor's findings must be made in writing within 60 days. If the allotted time is insufficient, an extension can be granted.

**When can I expect an audit?**

A program compliance audit will be conducted after your first year of certification. Subsequent audits will be scheduled approximately once every three years.

Audits also may be scheduled, when necessary, to investigate allegations of improper claims handling, denial of benefits or practices contrary to the rules governing self-insurance.

Prior to an audit, L&I will contact the designated contact person for your self-insurance program.

# Employer Requirements

## What are the self-insured employer's requirements?

### ***Ability to manage a self-insurance program***

When you become self-insured, you must have the necessary processes in place to manage your self-insurance program and to report injuries. Each self-insurer is responsible for promptly and fairly delivering benefits to injured workers and is accountable for all aspects of its workers' compensation program.

(WAC 296-15-310 and WAC 296-15-320)

### ***Contact person***

When you become self-insured, you must provide L&I with the name, title, address and phone number of a person designated as the contact person with L&I for all self-insurance matters and correspondence. This person should be knowledgeable about your self-insurance program. If the contact person changes, you must notify L&I in writing within 10 working days.

(WAC 296-15-221 (1)(a) & (3).)

### ***Benefits in addition to, or instead of, time-loss compensation***

L&I requires a statement of your current policy on keeping employees on full salary or applying sick leave, health, and welfare insurance benefits or any other compensation in conjunction with time-loss compensation. The policy must be on file with L&I

(WAC 296-15-221 (1)(b).)

If a worker receives wages through the use of sick leave, vacation pay or some other accrued benefit, they will still be entitled to time-loss benefits.

(RCW 51.32.090 (6)W 51.32.090 (6))

## **Notifying employees**

All self-insured employers must have a comprehensive program to inform employees about self-insurance and employee rights and obligations. New employees must be provided with a copy of the “Workers’ Compensation Filing Information” form (F207-155-000) within 30 calendar days of employment. Additional information must be provided at the time a claim is filed. Minimum requirements for advising employees of rights and obligations are found under WAC 296-15-400.

## **Claims log**

As a self-insured employer, you must maintain a log of all claims filed by workers who sustain an industrial injury or develop an occupational disease during employment.

The claims log must contain the injured worker’s name, date of injury or first notification of an occupational disease, L&I claim number and date of claim closure, and document whether the claim is compensable or medical-only (WAC 296-15-200). This log is separate from OSHA’s Form 300, *Log of Work-related Injuries and Illnesses*, and OSHA’s Form 300A, *Summary of Work-related Injuries and Illnesses*.

## **Record of payment**

You must maintain a record of all compensation payments made to injured workers. The record of payments must include the date payments are mailed or disbursed to the injured workers (RCW 51.14.110).

The record should include:

- Claim number
- Check number
- Date of payment/check
- Who the payment was made to
- What the payment is for

- What period the payment covered
- Amount of the payment

### ***Self-Insured notices***

A self-insurance poster must be displayed at each of your locations. These posters state that you are a self-insured employer, subject to the provisions of the self-insurance laws, and also identify a contact person for reporting injuries. The poster should be displayed where all employees can see it (RCW 51.14.100).

# Claims Review

## **How are my workers' compensation claims reviewed?**

The auditor will spend approximately one week reviewing claim files at the location where your claims are administered. Time-loss compensation, medical only and rejected claims, and claims with reopening applications will be thoroughly examined.

The claims will be reviewed for compliance with industrial insurance laws and regulations. A major emphasis will be placed on timeliness and accuracy of benefits delivered to injured workers, and on proper reporting requirements.

# Reporting Costs and Hours

## **What will be audited from the Quarterly Report of Self-Insured Business?**

An auditor will verify the total claim costs and worker hours reported on the quarterly report to ensure the assessments paid to L&I are based on correct reporting. The auditor will also review the deduction for the asbestos and supplemental pension fund assessments (see Page 12), if taken from employees' paychecks.

## **How will claim costs and worker hours be audited?**

An auditor will contact you prior to the visit to determine how you compile and report claim costs and worker hours. During the audit, the method you use to compile and report claim costs and worker hours will be verified. The totals reported to L&I will be audited.

## **What claim costs should I report?**

Reportable claim costs are:

- Time-loss compensation
- Permanent partial disability awards
- Medical bills
- Prescriptions
- Medical appliances
- Independent medical examinations and/or consultations
- Loss of earning power benefits
- Travel expenses incurred by injured workers for treatment or rehabilitation
- Vocational rehabilitation expenses
- Penalties paid to injured workers
- Interest on Board Orders

The following are NOT reportable claim costs:

- Legal fees
- Investigation fees
- Nurse consultant/case management costs
- Program operating expenses
- Service organization fees
- Pension payments to L&I

Credits you may take to reduce your reported claim costs:

- Recovery of overpayments
- Third-party recoveries (if over \$5,000, obtain L&I approval first)
- Supplemental benefit reimbursements
- Recovery of provisional time-loss compensation
- Claim costs incurred on a preferred worker, after receiving reimbursement from L&I.

### **How are the worker hours reported in the quarterly report audited?**

The auditor will ask you to outline the system used to compile hours reported on the quarterly report. Source documents, such as time cards and payroll registers, will be reviewed to determine if the system used produces the correct reporting of worker hours.

In the case of hourly employees, worker hours are hours actually worked by the employees. Actual hours include regular and overtime hours. Holiday, vacation, sick leave, stand-by or any other hours paid but not worked should not be reported. Complete and accurate time records must be maintained.

For salaried employees, you may choose between two reporting methods: actual hours worked or an assumed basis of 160 hours per month. If you report actual hours worked, you must maintain complete and accurate records of

the actual hours worked. If you use the assumed basis of 160 hours per month, the number of hours cannot be reduced for hours or days not worked.

Some employees do not qualify as hourly or salaried employees. They include contract employees, commission personnel and any employee whose pay is not based on hours worked. If you have any questions on how to report hours for specific personnel, contact L&I's Self-Insurance section, program compliance, at 360-902-6840.

### **What if the audit changes the totals reported in the quarterly report?**

If the audit reveals an overpayment to L&I (based on the reporting of claims costs and/or worker hours) you may apply for a refund by submitting an amended report with the proper supporting documentation. You may submit amended quarterly reports for any quarter within the past three years. If you have underreported, you will be billed for the additional assessments.

### **What are the asbestos and supplemental pension funds, and how much should I deduct from employees' paychecks?**

The asbestos fund pays benefits for asbestos-related disease claims pending jurisdictional determination. The supplemental pension fund is used to pay for time-loss compensation and pension cost-of-living increases to injured workers or their beneficiaries.

The employer is required to pay into these funds and may deduct one-half of the assessed rate from the employee. The employer may request reimbursement from the department for cost-of-living increases from the supplemental pension fund.

To determine if you are deducting the correct amount from employees' paychecks, take one-half of the asbestos and supplemental pension rates from the quarterly report to establish the employees' rate. Multiply the rate by the number of hours worked (or assumed) in a pay period to get the correct deduction for each employee.

If the maximum deductible amount is exceeded, you will be required to reimburse the employees for over-deductions within the past three years.

## On-site Medical Facility

### **What is an on-site medical facility and how does it affect the audit?**

An on-site medical facility exists when a physician, physician assistant, advance registered nurse practitioner, or nurse treating under the direction of a physician provides treatment on your premises for industrial injuries.

If your firm has an on-site medical facility, the auditor will review the documentation of medical treatment provided for on-the-job injuries and occupational diseases to determine if a claim exists. Records will be reviewed to ensure that claims are properly reported and managed.

# Audit Reports and Responses

## **How will I stay informed about the audit process?**

If you have questions during the audit, contact L&I's Self-Insurance section, program compliance, at 360-902-6840.

## **What can I expect after the audit is completed?**

A report of the auditor's findings will be sent to your contact person. If problem areas are identified, you will be directed to bring these areas into compliance.

## **How do I respond to the audit report?**

You are given 60 days to respond in writing to the findings and directives in the audit. L&I will review your plans to correct the audit findings. Any disagreement with the findings and directives of the audit should be explained in your response.

## **Can I be penalized for non-compliance?**

Yes. L&I may issue penalties for the delay of benefits to injured workers and for violations of the Washington Administrative Code (WAC). If you unreasonably delay benefits to an injured worker, you may be penalized \$500 or 25 percent of the delayed benefit, whichever is greater (RCW 51.48.017). If you violate or fail to obey, observe or comply with any regulation administered by L&I, you may be subject to a penalty, not to exceed \$500 (RCW 51.48.080).

If penalties are recommended, you will have 20 days to respond separately to these recommendations. This response must also be in writing.

## Useful Resources

The following materials are available on L&I's website or through the Self-Insurance section, P.O. Box 44892, Olympia, WA 98504-4892. Telephone: 360-902-6901.

### **Industrial Insurance Laws, RCW Title 51**

Online at

<http://apps.leg.wa.gov/rcw/default.aspx?Cite=51>

Printed copy: Request form number F247-167-000.

### **WAC 296-15, Workers' Compensation Self-Insurance Rules and Regulations**

Online at

<http://apps.leg.wa.gov/WAC/default.aspx?cite=296-15>

Printed copy: Request form number F207-052-000.

### **Workers' Compensation Filing Information**

Online at [www.Lni.wa.gov/forms/pdf/207155af.pdf](http://www.Lni.wa.gov/forms/pdf/207155af.pdf)

### **Claim Adjudication Guidelines**

(replaces the Workers' Compensation Manual)

Go to

[www.Lni.wa.gov/ClaimsIns/Insurance/Selfinsure/Claims/](http://www.Lni.wa.gov/ClaimsIns/Insurance/Selfinsure/Claims/)

and click on Claim Adjudication Guidelines

### **Notice to Employees of Self-Insured Businesses**

*(English/Spanish)*

Self-Insured employers must display this poster where employees can see it.

Online at [www.Lni.wa.gov/IPUB/207-037-909.pdf](http://www.Lni.wa.gov/IPUB/207-037-909.pdf)

**Printed copy:** Request form number F207-037-909.

### **A Guide to Industrial Insurance Benefits for Employees of Self-Insured Businesses**

Online at [www.Lni.wa.gov/IPUB/207-085-000.pdf](http://www.Lni.wa.gov/IPUB/207-085-000.pdf)

Printed copy: Request form number F207-085-000.

*Spanish Version:*

Online at [www.Lni.wa.gov/IPUB/207-085-999.pdf](http://www.Lni.wa.gov/IPUB/207-085-999.pdf)

Printed copy: Request form number F207-085-999.

## **Employers' Guide to Self-Insurance in Washington State**

Online at [www.Lni.wa.gov/IPUB/207-079-000.pdf](http://www.Lni.wa.gov/IPUB/207-079-000.pdf)

Printed copy: Request form number F207-079-000

**For a complete list of self insurance forms and publications that are available online, visit:**  
[www.Lni.wa.gov/FormPub/results.asp?Keyword=self-insurance](http://www.Lni.wa.gov/FormPub/results.asp?Keyword=self-insurance)

**Use Request for Manuals from Claims Training**  
([www.Lni.wa.gov/Forms/pdf/F241-021-000.pdf](http://www.Lni.wa.gov/Forms/pdf/F241-021-000.pdf)) to order copies of these manuals:

- Claims Administration Policy Manual (PM)
- Workers' Compensation Adjudicator (WCA) and Claims Management (CM) Manuals (*Not sold separately*)
- Workers' Compensation Adjudicator (WCA), Claims Management (CM) and Policy Manuals for all 3.

## **Medical Aid Rules and Fee Schedules**

Online at [www.FeeSchedules.Lni.wa.gov](http://www.FeeSchedules.Lni.wa.gov)

**Workers' Compensation Insurance Manual**  
WAC 296-17, General reporting rules, audit and recordkeeping, rates and rating system for Washington workers' compensation insurance

Online at

<http://apps.leg.wa.gov/wac/default.aspx?cite=296-17>

## **Workplace safety and health information**

Visit [www.Lni.wa.gov/Safety](http://www.Lni.wa.gov/Safety)

*Other formats for persons with disabilities are available on request.  
Call 1-800-547-8367. TDD users, call 360-902-5797. L&I is an equal  
opportunity employer.*