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Ms. Debbie Davenport  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport,

SCF Arizona is pleased to respond to the Auditor General's draft performance audit and sunset review of the State Compensation Fund.

I want to state that we have been very pleased by the depth of understanding and comprehension of the staff of the Auditor General's Office regarding the operations of SCF Arizona. We are a complicated business and your staff was always inquisitive, professional and responsive as we worked through the audit and review. We congratulate you on a very impressive review document.

**Finding 1: Fund should continue and enhance efforts to improve its claims expense-to-premium ratio.**

Recommendations:

**1.1 The Fund should consider applying stricter standards of coverage so it provides insurance to only those companies with loss histories within reasonable industry standards and where reasonable safety improvement efforts are effective.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**1.2 The Fund should work with the Legislature to develop legislation to change state statutes to establish that any medical charges not covered under the ICA fee schedule and not from a medical provider within a carrier's medical network shall be based on the usual and customary reimbursement rates that prevail in the same community for that medical service.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented in the sense that SCF will continue to offer legislation with the intent expressed in the finding. While we agree entirely that legislation directed towards implementing medical cost containment focused on allowing carriers to direct care in some manner and implement evidence-based treatment guidelines and allowing greater utilization review is needed, we must acknowledge that accomplishing this goal is not within SCF's power. Legislative changes in this arena may prove to be difficult to achieve due to opposition from various interest groups that oppose efforts to control medical costs under any circumstances.

**1.3 The Fund should encourage policyholders to direct injured workers to the Fund's network providers, when appropriate, for their first medical treatment.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**1.4 The Fund should continue working to make improvements to its provider network through efforts to recruit additional providers and identifying areas of the State in need of additional providers.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**Finding 2: Fund should continue to improve claims management by better aligning itself with recommended practices.**

Recommendations:

**2.1 The Fund should re-examine its consultant's recommended criteria for when to assign claims to lost-wages claims handlers and adopt additional criteria, if it determines that doing so would help avoid payment delays arising from reassigning claims.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**2.2 The Fund should examine its policies, training, and oversight functions to determine why claims handlers fail to adequately complete three-way contact. Based on the results of its findings, the Fund should modify its oversight and training practices accordingly and ensure that the three-way contact and claims investigations are completed in a timely manner.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**2.3 To help ensure effective claims management, the Fund should:**

- a. Require documented action plans for all claims with significant costs, and**
- b. Review documented action plans as part of its best practices reviews.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**2.4 The Fund should implement the external consultant's recommendation that it contact the injured worker by phone, in addition to the required letter, to check on his/her work status and job search when applicable.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**2.5 To help insure QA reviews are used to improve statutory compliance, the Fund should:**

- a. Examine its review policies, and develop and implement an effective review process that provides fund management with trends in claims management and that can be used to improve claims handlers' performance,**
- b. Provide documentary evidence of this supervisory review; and**
- c. If appropriate, develop an action plan for improvement based on the results.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**2.6 To better ensure timely payment of lost-wages claims, the Fund should:**

- a. Develop and implement policies regarding actively working to obtain medical documentation;**
- b. Establish an internal standard for payment timeliness when eligibility for lost-wages compensation cannot be determined within 21 days of an ICA notification date; and**
- c. Modify its QA review to evaluate whether claims handlers are following the policies and meeting the internal standard.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**2.7 To ensure the Fund's reorganization efforts are on target and effectively bringing the Fund in line with recommended practices in claims management, the Fund should perform an internal audit or commission another external claims review to measure progress against statutory compliance and recommended practices in claims management.**

This finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Again, thank you for the opportunity to respond to this report. We will be prepared to provide your office, as required by the Joint Legislative Audit Committee, a written explanation of the status of all recommendations within six months after the published date of this audit report.

Sincerely,

Don Smith  
CEO