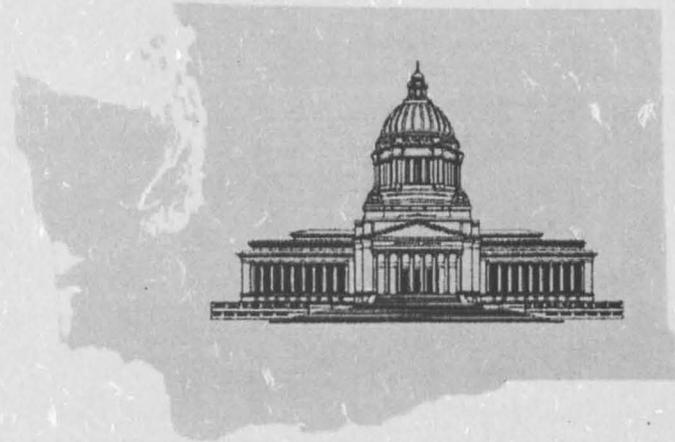


**State of Washington  
Joint Legislative Audit and Review Committee (JLARC)**



**Follow-up: 2003  
Performance and Outcome  
Measure Review:  
Vocational Rehabilitation  
Services to Injured Workers**

**Report 05-1**

**January 5, 2005**

*Upon request, this document is available  
in alternative formats for persons with disabilities.*

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**JOINT LEGISLATIVE AUDIT AND REVIEW COMMITTEE**

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The Joint Legislative Audit and Review Committee (JLARC) carries out oversight, review, and evaluation of state-funded programs and activities on behalf of the Legislature and the citizens of Washington State. This joint, bipartisan committee consists of eight senators and eight representatives, equally divided between the two major political parties. Its statutory authority is established in RCW 44.28.

JLARC staff, under the direction of the Committee and the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other policy and fiscal studies. These studies assess the efficiency and effectiveness of agency operations, impacts and outcomes of state programs, and levels of compliance with legislative direction and intent. The Committee makes recommendations to improve state government performance and to correct problems it identifies. The Committee also follows up on these recommendations to determine how they have been implemented. JLARC has, in recent years, received national recognition for a number of its major studies.

**FOLLOW-UP: 2003  
PERFORMANCE AND  
OUTCOME MEASURE  
REVIEW: VOCATIONAL  
REHABILITATION  
SERVICES TO INJURED  
WORKERS**

**REPORT 05-1**

**JANUARY 5, 2005**



**STATE OF WASHINGTON  
JOINT LEGISLATIVE AUDIT AND  
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## OVERVIEW

In 2003, JLARC conducted a performance and outcome measure review of the system used by the Department of Labor and Industries (L&I) to provide vocational rehabilitation services to injured workers. A copy of the Department's update is included as Appendix 1. The results of the 2003 review were five findings and one recommendation to improve the methods used to refer injured workers to providers of vocational rehabilitation services:

### 2003 Review Findings:

1. L&I is not in compliance with the statutory mandate to make referrals based on performance criteria;
2. Key performance indicators measure efficiency, rather than quality and effectiveness;
3. Performance scoring methodology may discourage quality and effectiveness;
4. Conflicting statutory direction results in confusion about program purpose;
5. Single methodology inadequate to calculate performance of all referral types.

### 2003 Review Recommendation:

- L&I should consider additional methods of promoting accountability over the allocation of resources to vocational rehabilitation providers.

Following up on JLARC's 2003 *Performance and Outcome Measure Review: Vocational Rehabilitation Services to Injured Workers*, JLARC asked the Department to provide a status update on the implementation of the recommendation from that review. Our review of the Department's November 10, 2004, update suggests that substantial progress has been made in addressing these issues and that additional improvements are planned.

The following outlines the 2003 findings and the agency's response to each:

## L&I IS NOT IN COMPLIANCE WITH THE STATUTORY MANDATE TO MAKE REFERRALS BASED ON PERFORMANCE CRITERIA

An August 2004 communication from the program manager for claims administration to all claims managers stated that L&I has a statutory requirement to select vocational providers on the basis of timeliness and quality of services. Provider performance reports were identified as “the agency tools that best reflect each provider’s performance,” and claims managers were instructed to use this information to select vocational rehabilitation providers. Provider performance reports include information such as performance scores, percentage of referrals with specific outcomes such as return-to-work, types of referrals, provider geographic location, etc.

Previously, claims managers were able to see provider names ranked in order of performance score, but did not see the actual score. This information has now been added to the screen used by claims managers to make provider referrals. In addition, Accountability Summary Reports now include information on average provider performance score and number of conditional referrals to allow Claims Administration managers to monitor how claims managers use performance information in making provider referrals.

## KEY PERFORMANCE INDICATORS MEASURE EFFICIENCY, RATHER THAN QUALITY AND EFFECTIVENESS; AND PERFORMANCE SCORING METHODOLOGY MAY DISCOURAGE QUALITY AND EFFECTIVENESS

Providers of vocational rehabilitation services receive performance scores intended to reflect the quality and effectiveness of the services they provide to injured workers. As noted above, L&I claims managers then use these performance scores as the basis for referring injured workers to vocational rehabilitation providers. To address concerns that the performance scoring methodology promotes efficiency and gives providers an incentive to close cases quickly rather than to achieve desired outcomes such as returning injured clients to work, the performance measure scoring methodology has been adjusted. The new methodology increases the weight given to several outcome measures that reflect quality and effectiveness. Note that the performance measure is constructed so that *lower* scores indicate *better* provider performance while *higher* scores indicate *worse* provider performance. The new scoring methodology adjusts provider’s scores as follows:

- *Return to work* outcome reduces the performance score by 67 percent (previously the reduction was 33 percent);

- *Able to work* outcome reduces the performance score by 50 percent (previously this outcome had no impact on the score);
- *Further services appropriate* determination reduces the performance score by 50 percent (previously this outcome had no impact on the score);
- *Further services not appropriate* determination reduces the performance score by 50 percent (previously this outcome had no impact on the score).

By placing a greater emphasis on outcomes, the scoring methodology will better measure provider quality and effectiveness. With the requirement that claims managers use performance scores in making referrals, vocational rehabilitation providers have more incentive to improve their scores by producing desirable outcomes.

An additional initiative to emphasize quality and effectiveness is the outcome-based pilot program scheduled for implementation in 2005. Under this pilot, the majority of a provider's payment is conditional on provision of an acceptable work product rather than an hourly billing rate.

## CONFLICTING STATUTORY DIRECTION RESULTS IN CONFUSION ABOUT PROGRAM PURPOSE

The November 10, 2004, letter from the Department to JLARC characterized the goals of vocational services as "employability and, within that standard, returning workers to work whenever possible." The increased weights given to specific outcomes in the performance scoring methodology are consistent with this statement.

## SINGLE METHODOLOGY INADEQUATE TO CALCULATE PERFORMANCE OF ALL REFERRAL TYPES

L&I has chosen not to pursue the development of different scoring methodologies for different types of referrals for two reasons. First, they believe that the statutory requirements under RCW 51.32.095(1) and (2) provide overall guidance for all types of vocational services, which is to assist injured workers in becoming employable and, whenever possible, returning to work. A single scoring methodology is consistent with the concept of a single overall goal for vocational services. Second, the Department is concerned about the cost, complexity, and confusion of creating, displaying, and using multiple provider performance scores.

However, the Department does acknowledge that different types of vocational services may have different outcomes. This is reflected in the changes to the performance measure methodology noted above. In addition, the Department is exploring the use of dispute resolution data (the extent to which workers dispute vocational findings such as "able to work" or "further services not appropriate") as a quality indicator for certain vocational services.

## RELATED CHANGES AND FUTURE IMPROVEMENTS

Based on consultant recommendations, the Department has also made the following changes in its vocational provider performance measurement system:

- Updated the time-loss payment conversion factor to reflect current payments – the conversion factor will now be updated annually;
- Using provider performance measures to identify providers whose work should be reviewed;
- Helping providers to understand and learn from their own performance data;
- Initiated a study of how to modify case complexity adjustments to performance measures – this study has been slowed due to a lack of computer programming resources.

## SUMMARY

L&I has taken a number of steps to address the JLARC recommendation of promoting accountability over the allocation of resources to vocational rehabilitation providers. These include greater management emphasis on and oversight of the statutory requirement to make referrals based on performance criteria and improvements in the performance scoring methodology to emphasize desirable outcomes.

Cindi Yates  
Legislative Auditor

On January 5, 2005, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

Senator Jim Horn  
Chair

# APPENDIX 1 – 2003 REPORT DIGEST

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**PERFORMANCE AND  
OUTCOME MEASURE REVIEW:  
VOCATIONAL  
REHABILITATION SERVICES TO  
INJURED WORKERS**

**REPORT 03-11**



**OCTOBER 22, 2003**

**STATE OF WASHINGTON**

**JOINT LEGISLATIVE AUDIT AND REVIEW  
COMMITTEE**

**STUDY TEAM  
Larry Brubaker**

**LEGISLATIVE AUDITOR  
Tom Sykes**

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## OVERVIEW

The Department of Labor and Industries (L&I) manages the state's workers' compensation system, which provides coverage for medical costs and lost wages for workers who are injured on the job. One of the services available to injured workers is vocational rehabilitation. Vocational rehabilitation services identify and resolve problems that may prevent injured workers from returning to work. L&I contracts out most of the vocational rehabilitation services it provides to private providers. Since 1985, L&I has been required by law to make referrals to vocational rehabilitation providers on the basis of quality and effectiveness. This study reviews how L&I measures the quality and effectiveness of its vocational rehabilitation providers, and how these performance measures are used to make referrals to providers.

## OVERALL FINDING

JLARC finds that L&I is not in compliance with the statutory requirement to make referrals to vocational rehabilitation providers on the basis of quality and effectiveness. The factors that L&I uses to measure provider performance are better measures of efficiency than quality and effectiveness, and the performance scoring methodology may actually create a disincentive for quality and effectiveness. Additionally, JLARC finds that different types of vocational rehabilitation referrals may have widely varying goals. These varying goals are not adequately recognized in the single formula L&I uses to measure performance. Also, the performance scores L&I calculates are not required to be used by L&I staff in making referrals to providers.

Follow-Up: Performance and Outcome Measure Review  
Vocational Rehabilitation Services to Injured Workers

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## APPENDIX 2 – AGENCY UPDATE

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- Department of Labor and Industries

Follow-Up: Performance and Outcome Measure Review  
Vocational Rehabilitation Services to Injured Workers

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STATE OF WASHINGTON  
DEPARTMENT OF LABOR AND INDUSTRIES

NOV 15 2004  
JLARC  
7 3 2004  
JLA

November 10, 2004

Steve Lerch, Research Analyst  
Joint Legislative Audit and Review Committee (JLARC)  
P.O. Box 40910  
Olympia, WA 98504-0910

**RE: 2003 Performance Review on Vocational Performance Ratings**

Dear Mr. Lerch:

This summer, the Department of Labor and Industries, Health Services Analysis, inquired with your office about scheduling an update meeting on the 2003 JLARC performance review of L&I's vocational performance ratings (or CACO). We understand that, due to the departure of Tom Sykes and Larry Brubaker, there was an interim with no one assigned to this activity. Therefore, we would like to share a written update to your office, along with supporting documentation. Our intent is to demonstrate the department's progress in addressing the finding in the 2003 performance measurement review.

Briefly, in his 2003 report, Mr. Brubaker presented several of his concerns with L&I's vocational performance measurement system to JLARC. He reported that department staff who make referrals are encouraged, but not required, to use the performance ratings in referring injured workers for vocational services, and suggested that messages to staff about vocational services contribute to confusion about its purpose. He also stated that the department was not in compliance with its statutory mandate to measure performance because the measures reflect primarily effectiveness, rather than quality, and proposed that they may create a disincentive for quality and effectiveness. Further, he suggested that perhaps several different sets of metrics would be more effective than a single formula. Finally, in its finding, JLARC recommended the department consider additional or alternative methods of promoting accountability in vocational services.

I can report that the department has given careful consideration to the JLARC review and its recommendation, and it has implemented improvements and new strategies that speak directly to the concerns raised by Mr. Brubaker. I have laid out below those activities and how they relate to the department's performance measurement.

1. **Internal and Consultant Studies** Concurrent with the JLARC review last summer and fall, the department conducted two separate reviews of the performance measurement system, one with an internal workgroup and the other with a notable research scientist in



health care economics from the University of Washington, Dr. Thomas Wickizer. A copy of Dr. Wickizer's report has been enclosed.

The goal of these groups was not only to determine the level of validity of the current process, but also to identify potential improvements. The internal work group was specifically tasked with looking at the issue of creating greater emphasis on a quality (i.e., return to work, or RTW) outcome and less on the duration and cost of the referral.

The two evaluation activities were independent, but both came to similar conclusions about the strength of the performance measures. They also made similar suggestions for improvement. Based on the two efforts, the department implement changes in November 2003 that doubled the relative benefit of RTW outcomes and also increased the weight of other outcomes that aid in resolution of claims. Finally, both studies also noted the importance of continuing to capture time and costs in the measures at their current levels.

2. **Communication of Clear Expectation to Department Staff** As Mr. Brubaker's report correctly states, in June 2003, the department's Assistant Director for Insurance Services instructed staff to use the performance ratings, as well as RTW information, in making vocational referral decisions. On August 17, 2004, the Program Manager for Claims Administration issued further instructions and directions for using the performance measures. A copy of those instructions, which went out via e-mail to all adjudicative staff, is enclosed with this letter.
3. **Explicit Accountability Measures for Department Staff** In addition to additional instructions, L&I's Claims Administration have also added important measures on usage of the performance ratings to its Accountability Summary Reports. Managers in Claims use these documents to monitor their staffs and correct any inappropriate patterns of behavior. The reports provide information to the individual claim manager level, and will be used to ensure compliance. Sample copies of the Accountability Summary Reports are included, with the pertinent vocational referral information highlighted.
4. **Exploration of Additional Performance Indicators of Quality** Recently, the department has begun to explore the use of vocational dispute resolution information in the performance ratings. Such information must be used carefully, for two reasons. First, not all vocational outcomes are disputed, which can create inequities in reporting the information. Second, the reasons for the dispute may have little or no relevance to the vocational provider's work. However, the department is looking at ways to use this information in an ongoing effort to provide a broad spectrum of performance data to adjudicative staff.
5. **Development of a Vocational Outcome-Based Payment (OBP) Pilot** The department is developing a pilot to test the effects on quality and timeliness of services by using an outcome-based payment approach. The OBP pilot would recruit volunteer providers to accept referrals over a three month period where, rather than hourly billing, the provider would receive a small initial payment and then no further payment until the department receives an acceptable work product. The pilot would employ a payment scale that focuses both on the speed of the document and on the number of reviews needed, with more weight placed on ensuring the product is acceptable. The pilot would

also use L&I vocational staff to carefully review all work products before acceptance. A briefing document on the OBP pilot is enclosed for your review

Mr. Brubaker also discussed the possibility of developing different performance measures for the various types of the department's vocational services. The reasoning behind this concept was that the various services have different purposes and, thus, would define success in different ways. After careful consideration, the department decided not to pursue this idea further, for two reasons.

First, the department believes that RCW 51.32.095(1) and (2) may appear confusing but do provide overall guidance as to the goals of vocational services. While the goals of individual referral types may differ, they are all vital to the broader goals of employability and, within that standard, returning workers to work whenever possible.

The second reason is that capturing large amounts of performance information for vocational providers statewide and displaying it in a concise and meaningful way, on a quarterly basis, to department staff, providers and others is a significant undertaking for the department. To create separate performance indicators for each type of service would introduce significant additional complexity and confusion to this process.

Thank you for your attention to this letter and attachments. I am confident they indicate a clear pattern of responsiveness to the issues raised in last year's performance review. If you or your staff have any questions or would like more information, please do not hesitate to contact Roy Plaeger-Brockway, HSA Program Manager, by telephone at 360/902-6699 or e-mail at [plae235@lni.wa.gov](mailto:plae235@lni.wa.gov).

Sincerely,



Blake Maresh, Manager  
Program Analysis and Development

enclosures

cc: Cindi Yates, Legislative Auditor  
Suzanne Mager, Assistant Director for Legislative Affairs  
Roy Plaeger-Brockway, Program Manager, Health Services Analysis





