Adam stared out of the living room window of his 5,000-square-foot home overlooking a private three-acre pond dotted with lily pads and wood ducks. He thought his company had reversed an upward trend in work-related injuries in an effective and efficient manner. But he had a sick feeling that something was not quite right with how his organization had been reporting work-related injuries over the past several months. He could not yet imagine all the ways his company had gone off course.

HISTORY OF GROWTH SPURT AUTOMOTIVE ACCESSORIES

Growth Spurt Automotive Accessories (Growth Spurt) started out of the trunk of a car in 2009 when a young design engineer, Adam Fouts, found himself unemployed following a round of layoffs at a struggling manufacturing company. With a family to feed and no income, Adam turned to his father-in-law for advice. Adam’s father-in-law was the founder and president of Big Barn Fans, Inc., a successful manufacturer of farm-related air handling equipment. Adam’s father-in-law suggested Adam should import steel trailer hitch balls from China and resell them to automotive dealers and automotive parts retailers because he thought this need existed within the automotive accessories market. Adam quickly found his products were widely accepted within the automotive accessories marketplace.

Adam borrowed $10,000 from his 401K account, researched trailer hitch ball specifications, created a design of trailer hitch balls in three sizes to sell in the automotive accessories market, and purchased a container full of trailer hitch balls from a contract manufacturer located in China. Adam spent the next two months traveling to automotive dealers and automotive parts retailers selling the trailer hitch balls he had imported. He quickly realized there was a greater need in the automotive accessories market for trailer hitches than for trailer hitch balls. Adam recognized this as an opportunity for his newly-formed company and turned his attention toward designing and manufacturing a full-line of automotive trailer hitches and trailer hitch accessories.

Adam was a savvy engineer. While he enjoyed the design phase of a product’s life cycle, he thrived on rolling up his sleeves and turning a computer-aided design into a finished product by bending and cutting metal, welding and grinding joints, drilling holes, and applying a sleek black powder coat finish to a trailer hitch. Not only did he thoroughly enjoy the prototyping phase of the business, Adam excelled at designing a manufacturing process that eliminated waste and maximized throughput. Because of his commitment to a superior product, an unwavering emphasis on customer service, and his infatuation with operational efficiency and excellence, Adam quickly found his products were widely accepted within the automotive accessories marketplace.
HIRING ACCOUNTING EXPERTISE

Adam knew his business lacked financial leadership and that the growth of the organization tested the skills and expertise of his accounting staff. Therefore, Adam hired his first CFO, Sally Banks, in January of 2013. Sally had only brief stints in leadership accounting positions with two other manufacturing industries, but felt confident she could serve the accounting needs of Growth Spurt. Sally had earned a comprehensive accounting degree as well as an MBA from an accredited state-sponsored university. Additionally, Sally was a certified managerial accountant (CMA) as well as a certified public accountant (CPA). Adam felt comfortable with Sally’s academic experience and believed her professional certifications demonstrated her competence within the field of accounting.

As CFO, Sally was put in charge of all finance and accounting-related responsibilities which included: interim and annual financial statement preparation; annual audit coordination with an external certified public accounting firm; payroll processing and tax reporting responsibilities for employees in thirteen separate states; bank relationship management to secure appropriate capital to fund future growth; cost accounting reporting to support engineering, production, and sales for profit analysis and pricing considerations; as well as oversight of all human resource functions. Sally was confident in her abilities to manage and coordinate all accounting-related functions. But she felt less confident in her ability to oversee and manage human resource-related functions because of her lack of knowledge within this area. Still, Sally was up to the challenge and agreed to include human resource functions within her scope of responsibilities.

The accounting group that Sally was put in charge of consisted of only four individuals. There was one accounts payable clerk, one accounts receivable clerk, and one payroll and sales tax clerk. There was also one accounting manager who managed the accounting clerks, the cash position of the company, all cost-accounting-related needs, and compiled the interim financial statements. The staffing level posed a challenge to Sally because it forced her to become involved with the organization at a very detailed level. Adam was opposed to adding new accounting staff. This meant that Sally had to add detailed accounting functions to her list of responsibilities, including areas such as accounting for fixed assets and assisting with creating interim financial statements.

JUST GET IT DONE

Adam adopted an action-oriented attitude within Growth Spurt and emphasized the need to complete tasks and produce products so that customer orders could be fulfilled without delay. Adam was proud of the reputation his company had built and promoted, both internally to employees and externally to customers. He was especially proud of the fact that Growth Spurt could fulfill all customer orders within 24-hours. Although the company could fulfill all orders within 24-hours, they had to carry a tremendous amount of finished goods inventory to do so. Customer orders were strategically shipped from warehouses geographically located within a short distance of the customer. The number of distribution points and warehouses owned and operated by Growth Spurt (a total of seven) increased the amount of finished goods that the organization maintained at any given point in time. Growth Spurt produced a trailer hitch for every make and model of vehicle sold within the United States. This meant an extremely diverse quantity of trailer hitches needed to be on hand at all times. It was not uncommon that orders would need to be expedited through the manufacturing plant; for example, if a customer requests an unusual trailer hitch for, perhaps, a 1985 Ford Bronco, that the company does not have on hand.

Adam had little patience for excuses and was known to fire employees on the spot if they were not productive. Adam often trolled the manufacturing floor and was known to spend several hours at a time operating metal fabrication machines and welders. He wanted to prove to his employees that he could outwork them all, and that the manufacturing standards his engineering team had established were realistic and achievable.

Adam knew his actions were setting a specific tone within the organization. Employees were fearful of Adam, exerted themselves to their physical limits, and often worked through minor injuries to try to prove to him that they were valuable employees. Workers chose not to admit they were injured, fearing that they would be terminated due to lack of productivity. On several occasions, minor injuries became significant work-related injuries that resulted in work absences and substantial medical treatment. Adam intentionally made his presence felt on the manufacturing floor to try to promote productivity and encourage adherence to quality standards. But this tactic appeared to backfire because employees were hypersensitive to his presence and worked to the point of exhaustion when he was present, often leading to work-related injuries as a result of fatigue and negligence. It appeared Adam’s management style was counterproductive and led to many unnecessary work-related accidents.
CASH FLOW PINCH POINTS

By the end of 2013, the success of Growth Spurt was stressing cash flow. The organization grew to $25 million in revenue and employed more than 200 employees. The growth affected Sally’s ability to juggle the many responsibilities she had as CFO without being able to add accounting staff. Sally was constantly stressed by the cash demands placed on Growth Spurt from increased inventory levels, increased payroll, dividends paid to Adam, an ever-growing capital expenditures list, and the stretching of accounts receivable terms by large customers. As the company continued to grow, Sally analyzed every cash inflow and outflow for items that she could manage to improve the cash flow of Growth Spurt.

CASE SECTION 2 – MANAGING WORK-RELATED INJURIES

As Sally scoured all cash-related transactions, she realized injury-related costs, including workers’ compensation insurance premiums, were trending upwards at an astronomical rate and had increased by more than $1 million from 2012 to 2013.

Sally met with John Hamilton, the safety director, to get a better understanding of the safety record of the company. She felt somewhat embarrassed that she had never requested metrics be created or tracked relative to work-related injuries until now. She had simply taken the increased workers’ compensation insurance premiums at face value and understood the dramatic increases to be a function of the growth of the business. She rationalized her ignorance as a symptom of being overworked and a result of her overemphasis on internal and external financial compliance issues such as the creation of interim financial statements.

The workers’ compensation insurance policy is obtained by a company to cover the medical costs and lost wages due to work-related injuries and illnesses of employees of the company. In the United States, each state determines the level of workers’ compensation insurance that companies must provide. The premium a company pays for workers’ compensation is determined, in part, by the relative risk associated with the work being performed. The premiums are highest for the most dangerous working conditions. This portion of the insurance premium is referred to as the base rate and is unique to each state and industry classification. The premium is also determined by the frequency and severity of injuries experienced by employees of the organization. This portion of the insurance premium is referred to as the experience modifier. The experience modifier is a numeric representation of a business’s claims history and safety record as compared to other businesses in the same industry, within the same state. The total workers’ compensation premium is calculated using the following formula:

\[
\text{Base Rate} \times \text{Experience Modifier} \times \frac{\text{Payroll (per $100)}}{100}
\]

Because Growth Spurt uses saws, lasers, welders, and bending equipment to fabricate metal, the nature of the work is obviously quite dangerous. Therefore, Sally expected the portion of the worker’s compensation insurance related to the nature of the work performed in the manufacturing process to be high. Yet the portion of workers’ compensation computed, based on the injury-related experience (experience modifier) of Growth Spurt, a lagging indicator of work-related injuries experienced in prior years, was alarmingly high.

The annual premiums increased from $63,551 to $1,234,695 between 2011 and 2013. (See Table 1.) The increase resulted in a monthly cash outflow of more than $100,000 in 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Payroll (In Hundreds)</th>
<th>Base Rate (Per $100)</th>
<th>Experience Modifier</th>
<th>Annual Premium</th>
<th>Monthly Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$37,500</td>
<td>1.1759</td>
<td>2800%</td>
<td>$1,234,695</td>
<td>$102,891</td>
</tr>
<tr>
<td>2012</td>
<td>$22,500</td>
<td>1.2175</td>
<td>600%</td>
<td>$164,363</td>
<td>$13,697</td>
</tr>
<tr>
<td>2011</td>
<td>$15,000</td>
<td>1.2105</td>
<td>350%</td>
<td>$63,551</td>
<td>$5,296</td>
</tr>
<tr>
<td>2010</td>
<td>$12,500</td>
<td>1.2078</td>
<td>250%</td>
<td>$37,744</td>
<td>$3,145</td>
</tr>
<tr>
<td>2009</td>
<td>$10,000</td>
<td>1.1954</td>
<td>100%</td>
<td>$11,954</td>
<td>$996</td>
</tr>
</tbody>
</table>

The base rate of the insurance premiums remained relatively flat between 2009 and 2013. Although the payroll for Growth Spurt more than tripled from 2009 to 2013, the workers’ compensation premiums increased by 10,330%! It was apparent that the increase in insurance premiums was the result of an out-of-control experience modifier. In fact, Growth Spurt experienced work-related injuries at a rate 28 times greater than the industry average as evidenced by the 2,800% experience modifier the workers’ compensation insurance carrier assigned to Growth Spurt. Sally knew the experience modifier could be managed and decreased, which would, in turn, decrease future workers’ compensation premiums.

John compiled a list of the number of work-related injuries reported along with associated insurance claims from 2009 to 2013 for Sally. (See Table 2.) The data confirmed Sally’s suspicion that both the frequency and severity of work-related injuries had been steadily increasing, which
in turn, was leading to a rapid escalation in the workers’ compensation insurance premiums. The number of work-related injuries more than quadrupled from 2009 to 2013. Sally believed the increase in the frequency of work-related injuries was due to the combination of several factors. Sally believed one of the factors was an increased emphasis on higher production quotas by management to meet continued demand for the company’s product. This caused employees to take time-saving measures in the manufacturing process at the expense of safe manufacturing processes. Sally also believed a high rate of employee turnover within the manufacturing process was leading to increased injury costs because new employees are less cautious and less familiar with how the machinery works. John’s analysis also displayed an extreme spike in injury-related costs in 2012 from a catastrophic injury that occurred when a semi-truck driver pulled a trailer away from a loading dock as an employee drove a forklift into the trailer. The accident caused injuries so severe to the employee that he died three months after the accident. The forklift accident resulted in a $6 million insurance claim.

**Table 2: Work-Related Injuries Reported 2009 to 2013**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Injuries</th>
<th>Insurance Claims Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>35</td>
<td>$191,730</td>
</tr>
<tr>
<td>2012</td>
<td>27</td>
<td>$6,327,620</td>
</tr>
<tr>
<td>2011</td>
<td>20</td>
<td>$92,678</td>
</tr>
<tr>
<td>2010</td>
<td>15</td>
<td>$53,762</td>
</tr>
<tr>
<td>2009</td>
<td>8</td>
<td>$15,321</td>
</tr>
</tbody>
</table>

**CONTROLLING INJURY-RELATED COSTS**

Sally met with Adam to discuss the degree to which work-related injuries had negatively impacted the financial position of Growth Spurt. Adam was not surprised of the increase because he was fully aware that the death of one of his employees would cause a large increase in workers’ compensation insurance premiums. But he was alarmed at the unprecedented upward trend in the experience modifier of Growth Spurt’s workers’ compensation insurance premium calculation. He knew his company had experienced its fair share of work-related injuries, but he did not realize the degree to which it had caused a dramatic increase in workers’ compensation insurance premiums. Adam asked Sally to work with the safety director to devise a plan that would help reverse the upward trend Growth Spurt had experienced in work-related injuries.

Sally subsequently asked John, the safety director, to work with the insurance agent who wrote the workers’ compensation insurance policy for Growth Spurt and to establish a tactical plan to control and reduce the insurance premiums. In the meantime, Sally began to think about creating an injury-related metric to help analyze the frequency and severity of work-related injuries.

**CASE SECTION 3 – METRICS FOR CONTROLLING INJURY-RELATED COSTS**

Sally felt a sense of urgency to produce an injury metric for the sake of plugging the cash flow holes she found within Growth Spurt. She understood the importance of key performance indicators (KPIs) as part of a larger strategic management performance system (SPMS) and strategic management control system (SMCS). Sally knew both the frequency and severity of work-related injuries had to decrease in order to achieve a reduction in future workers’ compensation insurance premiums. The injury metric she created tracked the total number of work-related injuries that were reported each year. (See Figure 1.) The metric showed a dramatic increase in the number of work-related injuries, a five-fold increase, the company had experienced over the previous five-and-one-half years. Sally felt comfortable that she did not need to include the cost of work-related injuries in this metric because she believed the severity of the injuries was simply a function of the frequency of injuries. In other words, Sally believed that by focusing on reducing the number of injuries, the severity of injuries would also decrease because an emphasis on reducing injuries would promote a safety-conscious environment, reducing the severity of injuries.

**Figure 1: Work-Related Injuries Reported 2009 to 2014**

Sally felt a sense of urgency to produce an injury metric for the sake of plugging the cash flow holes she found within Growth Spurt. She understood the importance of key performance indicators (KPIs) as part of a larger strategic management performance system (SPMS) and strategic management control system (SMCS). Sally knew both the frequency and severity of work-related injuries had to decrease in order to achieve a reduction in future workers’ compensation insurance premiums. The injury metric she created tracked the total number of work-related injuries that were reported each year. (See Figure 1.) The metric showed a dramatic increase in the number of work-related injuries, a five-fold increase, the company had experienced over the previous five-and-one-half years. Sally felt comfortable that she did not need to include the cost of work-related injuries in this metric because she believed the severity of the injuries was simply a function of the frequency of injuries. In other words, Sally believed that by focusing on reducing the number of injuries, the severity of injuries would also decrease because an emphasis on reducing injuries would promote a safety-conscious environment, reducing the severity of injuries.
THE VALUE OF A KPI THROUGH INCREASED VISIBILITY

Sally was pleased with the visibility the injury metric provided the firm. The metric allowed her to communicate with the rest of the organization that the number of work-related injuries was out of control and causing the experience modifier portion of the worker’s compensation insurance premium to rise at such a dramatic rate. Furthermore, the metric allowed Sally to have meaningful conversations with John, the safety director, about a plan they could execute to minimize the risk and cost of work-related injuries.

SHARING THE SAVINGS

Sally was a firm believer that incentives that align the motives and actions of an employee with that of the firm is an effective way to achieve corporate goals. Therefore, Sally created an incentive program for John which allowed him to receive an annual bonus equal to 1% of the documented savings related to the decreased workers’ compensation insurance premium charged to the firm.

John developed an action-oriented plan to reduce the overall cost of work-related injuries and illnesses with a focus on reducing the frequency of injuries. John’s plan included modifying the personal protective equipment (PPE) policy to include mandatory usage of hearing apparatus, protective eyewear, steel-toed boots, and company-issued uniforms specifically designed and fitted to avoid snagging in machinery. John worked with the engineering department to improve the ergonomics of the work stations within the welding and metal fabrication departments to make the work less strenuous. John also worked with the plant manager and appropriate shift supervisors to establish a training and retraining program to ensure all production workers were properly trained to run company equipment in accordance with the machinery manufacturer specifications. Sally was pleased with John’s initiatives and felt comfortable that if John were to follow through on their plan, cash outflows from worker injuries would decrease.

PROMISING RESULTS

As the next several months went by, Sally’s confidence level rose as she watched her newly-created injury metric respond with positive results because of John’s efforts focusing on work-related injuries. Sally was eager to share the results of John’s efforts through her newly-created injury key performance indicator (KPI) with Adam, the owner, the rest of the executive management team, and all of the workers of Growth Spurt. By the end of November 2014, Sally’s KPI showed a sharp decline in the frequency of reported work-related injuries. (See Figure 2.) Both Sally and John were confident this was a leading indicator that the following year’s workers’ compensation insurance premiums would decrease significantly. John was estimating his annual bonus related to his efforts would reach somewhere around $10,000.

Figure 2: Work-Related Injuries Reported 2014

CASE SECTION 4 - EXPOSING FRAUD AT GROWTH SPURT

Sally was pleased with the progress and direction the business was headed. Growth Spurt’s cash flow issues finally appeared to be under control, and she felt like she had significantly reduced the risk the company had been exposed to because of work-related injuries. Sally knew John was going to be pleased because the newest workers’ compensation premiums came in at a significant reduction. The reduction translated into a $10,500 bonus for his efforts.

The week before Christmas, Sally was meeting with her accounting staff about the upcoming year-end closing process when the receptionist interrupted the meeting and insisted Sally take an important phone call from Adam. Sally excused the accounting staff and headed to her office to field the call. Adam spoke with a tone of concern and confusion. He had received a phone call at his home from the wife of the very first welding operator he hired when he began manufacturing trailer hitches in 2009. The welding operator was currently hospitalized at a local hospital receiving an intravenous antibiotic to fight a bacterial infection that was caused by an injury he received welding hitches three weeks prior.

Adam was not only concerned about the health of one of his most loyal employees. He was concerned because the employee’s wife was frantic. The hospital notified her that the care they were providing to her husband would not be covered by workers’ compensation insurance. The hospital told her the initial injury was not reported to the insurance company and therefore all costs would be billed to them personally. The worker’s wife was panicking because they recently opted out of the group health insurance program to save money. They were, therefore, uninsured. The hospital
stay was likely the beginning of what would be financial ruin for this employee and his family if the hospital was right about the non-coverage.

Adam wanted to know why this injury never appeared on the injury metric Sally distributed at the end of November. Adam demanded answers from Sally and only hoped there was some sort of mix-up within the billing department of the hospital. Sally calmed Adam down and reassured him that there must be some sort of mistake.

**BEATING THE SYSTEM THROUGH NON-REPORTING**

Sally immediately went to John and explained the situation, seeking clarification so that she could put Adam’s mind at ease. When Sally explained the situation to John, he turned pale and began to sweat. John broke down and explained everything to Sally.

He confessed the injury was intentionally not reported to the workers’ compensation insurance carrier. He told Sally one way he had been able to dramatically reduce the frequency of work-related injuries was to bring workers, with what he deemed to be minor work-related injuries such as cuts and abrasions, to an independent doctor who worked on a fee-for-service basis. The independent doctor would bill Growth Spurt a relatively small amount for any suturing and treating of minor injuries as compared with the costs that would have been charged through normal work-related medical treatment protocol.

The scheme allowed these injuries to go unreported to the workers’ compensation insurance agency. The injured worker would be treated through what the worker believed was a workers’ compensation claim while Growth Spurt would pay the bill to the independent doctor, and the claim would never appear as a work-related injury to the insurance agency. John admitted the instance with the hospitalized employee was not the only injury that was not reported to the insurance company. There were many other minor injuries over the prior seven months that skirted the appropriate insurance claim process.

Sally was stunned. How could she be so naïve? Why didn’t any of the internal controls in accounts payable catch payments made for medical-related costs? Why would an independent doctor agree to treat these individuals if he/she knew the injuries were work-related? Was the insurance agent part of the scheme? What was going to happen to the weld operator in the hospital? Would the family sue Growth Spurt Automotive Accessories? What was she going to tell Adam? Sally had a lot to think about and needed to quickly respond to the fraud at hand.

**APPENDIX 1: SKIRTING THE WORKERS’ COMPENSATION INSURANCE SYSTEM**

This appendix should be provided to students if the instructor wants them to complete questions related to Sections 3 and 4 of the case. The information in this appendix explains in detail how the fraud related to injured workers occurred. Enough information is provided that students can assess the internal controls of Growth Spurt and comment on how to strengthen internal controls to prevent such a fraud from occurring.

**REDUCING THE COST OF INJURIES**

In early 2014, John had met with Growth Spurt’s workers’ compensation insurance carrier for ideas about reducing future premiums. Their discussion concentrated on injury volume reductions as the main way the company could reduce future premiums.

At one point in the conversation, the insurance agent made an ‘off-the-record’ suggestion: consider taking employees with the smallest claims to an independent local doctor rather than to the local hospital. The agent told John that this would generate a lot of cost savings for treatment, and would also keep the small claims out of workers’ compensation reporting. The agent estimated that 75% of the company’s injury claims could easily be treated in this manner.

The insurance agent assured John that almost all of his clients used this type of treatment system, and that workers’ compensation was not really intended for the “small stuff that happens all the time.” The agent implied this was the way that most factories found the workers’ compensation rules to be affordable.

One example the agent provided to John concerned a laceration injury. While a hospital emergency room might charge $2,500 to treat the injury, perhaps $2,000 of that charge had nothing to do with the injury itself. It is the cost of being evaluated at the emergency room. In addition to paying an extra $2,000 for treatment, the company’s workers’ compensation injury count would include this injury, and the company’s premium would increase. If the injury was treated at an independent doctor, the employee could receive the same high quality treatment at a far lower cost, and injury reporting would be avoided.

John consulted with CFO Sally about his idea. She agreed to consider this change and asked John to look online to find independent doctors near the factory. Sally and John also talked about possible terms of a contract with a doctor and about internal processes the company might implement to change the way injured workers were evaluated at the plant.
Sally was not aware that their discussions would lead to imminent action by John. She was worried about its legality, about finding high quality medical treatment from a doctor who wasn’t affiliated with a major clinic or insurance carrier, and about how people in the plant would be able to implement a plan that seemed to require medical judgment and expertise that was beyond their capabilities.

John also consulted with the head of Human Resources to pitch his ideas. The concept got a much warmer reception, as human resources felt that injuries caused a huge amount of unnecessary lost time from work and worker turnover because of how the company reacted to them. If workers received basic treatment for minor injuries and then returned to the job, the company would benefit. Furthermore, a decline in insurance premiums could free up cash for employee raises and benefits payments.

John visited several offices of independent doctors who were interested in his proposition: contract with the factory to evaluate workers and treat their minor injuries on a contractual basis. There would be no insurance billing; the company would be billed directly. The head of Human Resources, John, and the doctor worked out the terms of the arrangement, and the head of Human Resources signed the contract on behalf of Growth Spurt. The head of Human Resources was convinced she had the authority to sign the contract and didn’t think twice about seeking approval from Sally because John had assured her Sally was fully on board with the plan and eager to see it put into action. Meanwhile, Sally was unaware that a decision had been made on a medical provider and that a contract was now in force. The organizational chart provided in Figure 3 illustrates how both Sally (the CFO) and Adam (the owner) were unaware of contract because John had successfully bypassed the organizational chain of command.

Figure 3: Growth Spurt Automotive Accessories Organizational Chart

REFERRING INJURED WORKERS

Not all injuries are treatable outside the hospital setting. All injuries would be evaluated immediately by the worker’s supervisor. Life-threatening injuries would require a call to 911 for ambulance transport to the hospital. All other injured workers would either be referred to the hospital or referred to the independent doctor for treatment. John, or another member of the safety committee, would be consulted regarding the level of treatment for all injuries that were not considered life-threatening. They would also assign a company employee to take the injured worker for treatment (either to the hospital or to the independent doctor). These criteria would be used to determine how the injured worker would be referred:

- Nature of the injury
- Company’s prior experience with treatment of that injury (e.g., Does it typically require follow-up? Does it typically require x-rays?)
- Likelihood of the employee accepting/preferring treatment at the hospital versus the independent doctor
- Whether the injury is on the agreed upon list of injuries treatable by the independent doctor

TERMS OF THE CONTRACT

The doctor agreed to contract with the company for one year. Under these terms:

- Injury must be on the agreed upon list
- Injured worker must be accompanied by a company representative
- Injured worker must seek treatment the same day as the injury occurs
- Evaluation of the injury would be done for a fixed fee of $50
- Doctor would exercise his discretion in determining whether to provide treatment or refer the employee to the local hospital for treatment
- Treatment by the doctor is expected to exceed 90% of referrals brought to the doctor, and the doctor would receive a year-end bonus if this rate was achieved
- The company employee accompanying the injured worker must receive an explanation as to why a hospital referral is made (and the doctor does not provide treatment) to help the company better gauge which injured workers to bring to this doctor
- Treatment of the injury would vary in cost according to an agreed-upon schedule
If follow-up treatment was necessary, the doctor would provide it. Total estimated cost of treatment would be determined at the time of treatment. The doctor would invoice the company directly.

**REPORTING AND INVESTIGATING INJURIES**

All injuries are reported to the worker’s supervisor and safety director, John, immediately, and an injury report is initiated. The report initially includes these details about the injury:

- Worker’s name and ID number
- Date and time of injury
- Description of the injury
- Task leading to injury (what the worker was doing)
- Shift supervisor, plant manager working on the shift
- Referral for treatment; where, which employee took the worker for treatment, who determined where the worker should be treated
- Worker’s agreement to treatment location (when the injury is not life-threatening)

All injuries are investigated by members of the safety committee, which includes the safety director, shift supervisor, plant manager, someone from Human Resources, and a workers’ representative (which changes periodically). Different members of the committee have different roles in the investigation, in accordance with their level and expertise.

The investigation process includes:

- A mandatory drug screen for the injured worker
- Examination of the machinery to look for maintenance issues
- Review of training documentation regarding the task the worker was completing when injured
- Interview of the injured worker
- Interview of coworkers and supervisor
- Description of treatment and cost
- Worker’s status (returned to work the same day, took time off, work was reassigned, etc.)

At the conclusion of the investigation process, the injury committee’s report draws a conclusion about fault and suggests future action. The report goes to the head of Human Resources, who has ultimate responsibility for determining the company’s course of action.

- When the worker is not at fault (and there are no drug issues) the report may recommend machine alteration (e.g. moving a guardrail, slowing the speed), machine maintenance, training changes, or worker reminders.

**IMPLEMENTING THE PLAN**

In the eight months (May–December) following this injury referral agreement, the company referred approximately 75% of injured workers to the independent doctor. Of those referred to the doctor, 95% were treated at his clinic, and 5% were referred to the local hospital for further evaluation and treatment.

Injuries reported to the workers’ compensation insurance system were as previously stated. Injury data for workers treated under the new referral system are excluded from those reports. The company tracked injuries referred. This information is provided in Table 3.

<table>
<thead>
<tr>
<th>Month</th>
<th>Number of Injuries</th>
<th>Cost of Injuries</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>5</td>
<td>$3,550</td>
</tr>
<tr>
<td>June</td>
<td>6</td>
<td>$3,950</td>
</tr>
<tr>
<td>July</td>
<td>8</td>
<td>$5,600</td>
</tr>
<tr>
<td>August</td>
<td>5</td>
<td>$3,800</td>
</tr>
<tr>
<td>September</td>
<td>6</td>
<td>$3,850</td>
</tr>
<tr>
<td>October</td>
<td>10</td>
<td>$6,750</td>
</tr>
<tr>
<td>November</td>
<td>11</td>
<td>$7,750</td>
</tr>
<tr>
<td>December</td>
<td>10</td>
<td>$7,350</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61</strong></td>
<td><strong>$42,600</strong></td>
</tr>
</tbody>
</table>

Total costs of treatment by the independent doctor were $42,600. Although those costs would have been covered under insurance, the claims also would have continued to result in escalated workers’ compensation insurance premiums.

Figure 3 illustrates the actual number of injuries experienced by Growth Spurt, both reported and non-reported injuries. Had the workers’ compensation insurance company been made aware of all the injuries incurred by Growth Spurt, it is likely that the experience modifier, a critical component in calculating insurance premiums, would remain high, resulting in little to no workers’ compensation premium savings.
In December, John contacted the insurance agent to discuss the next round of insurance premiums. The agent told him that, based on the most recent six months of experience, the company’s experience modifier for workers’ compensation had fallen to 200%. While Growth Spurt still exceeded the level of injury experience of similar companies, their premiums would fall dramatically in 2015. John was thrilled to hear this news, and was eager to reap the financial reward associated with this insurance savings.

John shared the good news with Sally, who congratulated him on helping the company achieve the goal so quickly. She asked him how he had done it, and he replied, “attention to detail at all levels in the factory.”