



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit  
 Workers' Compensation and Long Term  
 Disability Programs  
 Office of the State Employer  
 Department of Management and Budget*

Report Number:  
 07-141-04

Released:  
 October 2005

*The Office of the State Employer's (OSE's) mission includes managing the State's workers' compensation and long term disability (LTD) programs, giving technical assistance and support to the State departments' efforts to reduce work-related injuries and illnesses, and achieving the earliest practical return to work for employees away from work due to temporary or permanent disabilities.*

**Audit Objectives:**

1. To assess the effectiveness of OSE's monitoring of the third party administrators' (TPAs') administration of the workers' compensation and LTD claims.
2. To assess the effectiveness of OSE's efforts to evaluate and improve the cost-effectiveness of the workers' compensation and LTD programs.
3. To assess the effectiveness of OSE's efforts to provide technical assistance and support to State departments in administration of the workers' compensation and LTD programs.

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**Audit Conclusions:**

1. We concluded that OSE was effective in monitoring the TPAs' administration of the workers' compensation and LTD claims. We noted a reportable condition related to the monitoring of the LTD program TPA (Finding 1).

2. We concluded that OSE was effective in its efforts to evaluate and improve the cost-effectiveness of the workers' compensation program. We also concluded that OSE was moderately effective in its efforts to evaluate and improve the cost-effectiveness of the LTD program. We noted reportable conditions related to independent medical examination data analysis, LTD return-to-work and transitional employment programs, and LTD program analysis (Findings 2 through 4).
3. We concluded that OSE was effective in its efforts to provide technical assistance and support to State departments in administration of the workers' compensation and LTD programs. Our audit report does not include any reportable conditions related to this audit objective.

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**Agency Response:**

Our audit report contains 4 findings and 4 corresponding recommendations. OSE did not express agreement or disagreement with the 4 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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October 28, 2005

Mr. David H. Fink, Director  
Office of the State Employer  
Department of Management and Budget  
Capitol Commons Center  
Lansing, Michigan

Dear Mr. Fink:

This is our report on the performance audit of the Workers' Compensation and Long Term Disability Programs, Office of the State Employer, Department of Management and Budget.

This report contains our report summary; description of programs; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; four exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL



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## Description of Programs

The Office of the State Employer's (OSE's) mission\* includes managing the State's workers' compensation\* and long term disability\* (LTD) programs, giving technical assistance and support to the State departments' efforts to reduce work-related injuries and illnesses, and achieving the earliest practical return to work for employees away from work due to temporary or permanent disabilities. OSE has contracted day-to-day management and claims processing for the workers' compensation and LTD programs to third party administrators\* (TPAs). OSE provides support to State departments through quarterly update meetings, consultation on individual issues, and assistance in implementing return-to-work and transitional employment programs.

The State's transitional employment program utilizes rehabilitation specialists to evaluate the various tasks that are identified by department and agency supervisors. These tasks are then grouped by use of a database developed over recent years into a series of assignments that can be matched to an individual's particular temporary disabling condition. The employee is then temporarily assigned, for up to 6 months, to perform these alternative tasks until he/she is able to return to his/her regular position. In fiscal year 2003-04, approximately 174 employees participated in the program with an average duration of transitional employment assignment of 34 days. OSE estimated that this resulted in an increase of nearly 6,000 days of productivity.

### Workers' Compensation Program

The Workers' Compensation Act, Sections 418.101 - 418.941 of the *Michigan Compiled Laws*, established workers' compensation benefits for employees who suffer temporary or permanent disabilities from work-related injuries and diseases. Benefits for injured employees include payments for loss of wages, medical care, vocational rehabilitation, scheduled awards for loss of body parts, and death benefits for surviving family members. Employees are paid weekly compensation benefits for the duration of the disability or until death.

Injured State employees are also entitled to a supplemental payment from their department if their weekly workers' compensation benefit is less than two-thirds of their

\* See glossary at end of report for definition.

regular gross wages. Each employee's departmental personnel office is responsible for making the determination and for computing and paying the supplement. This supplement is initially authorized for 50 weeks, but it may be extended to 100 weeks with approval by the Department of Civil Service.

The Departments of Community Health, Corrections, Human Services, Military and Veterans Affairs, and State and the Michigan Department of State Police have special workers' compensation provisions for employees who are injured as the result of an assault (assault claim\*).

The State self-insures for workers' compensation benefits. Each State department is charged for claims incurred plus administrative fees. OSE has contracted with a TPA to process claims and payments. The workers' compensation program TPA has been on contract since October 2002.

In fiscal year 2002-03, the State paid workers' compensation claims totaling \$39.1 million and administrative fees totaling \$2.9 million and State employees filed 5,591 new claims.

#### LTD Program

The State offers an LTD program to its employees. The State and the employees enrolled in the program share in the premium costs. Premium costs are calculated based on the four plan levels and the employee's gross wages. Enrollment in the plan levels is determined by the amount of sick leave hours that the employee has previously accumulated and the employee's current sick leave balance (see Exhibit 1).

The contributions made by the State and State employees are deposited into the State Sponsored Group Insurance Fund and are used to pay claims and TPA and State administrative fees. The LTD program TPA was awarded the contract in October 2002.

\* See glossary at end of report for definition.

Contributions, claims paid, TPA and State administrative fees paid, and new claims for fiscal years 2002-03 and 2003-04 were:

	Fiscal Year 2002-03	Fiscal Year 2003-04
State contributions	\$ 23.9 million	\$ 24.5 million
Employee contributions	\$ 21.6 million	\$ 22.2 million
Disability claims paid	\$ 48.1 million	\$ 41.0 million
TPA administrative fee	\$ 4.3 million	\$ 3.7 million
State administrative fee	\$ 552,400	\$ 477,500
Number of new claims filed	4,929	3,550

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit\* of the Workers' Compensation and Long Term Disability Programs, Office of the State Employer (OSE), Department of Management and Budget (DMB), had the following objectives:

1. To assess the effectiveness\* of OSE's monitoring of the third party administrators' (TPAs') administration of the workers' compensation and long term disability (LTD) claims.
2. To assess the effectiveness of OSE's efforts to evaluate and improve the cost-effectiveness of the workers' compensation and LTD programs.
3. To assess the effectiveness of OSE's efforts to provide technical assistance and support to State departments in administration of the workers' compensation and LTD programs.

### Audit Scope

Our audit scope was to examine the Office of the State Employer's administration of the workers' compensation and long term disability programs. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

### Audit Methodology

Our audit procedures, conducted from May through October 2004 and February through April 2005, generally covered the period October 1, 2002 through April 15, 2005. Our audit methodology included a preliminary review of program guidelines, statutory requirements, union contracts, and other audits conducted by the Office of the Auditor General and other State auditors. Our preliminary review included interviews and discussions with OSE personnel regarding their functions and responsibilities in relation to the workers' compensation and LTD programs. We also met with the human

\* See glossary at end of report for definition.

resources staff at the Department of Community Health (DCH), Department of Corrections (DOC), Department of Human Services (DHS), and DMB to obtain an understanding of the duties and responsibilities that OSE has delegated to these departments. Further, we obtained statistics and other comparative information related to the workers' compensation and LTD programs (see Exhibits 2 through 4).

To assess the effectiveness of OSE's monitoring of the TPAs' administration of the workers' compensation and LTD programs, we reviewed OSE's monitoring activities and inquired of four departments (DCH, DOC, DHS, and DMB) as to the performance of both TPAs. We also selected a sample of workers' compensation case files and reviewed them for program and contract compliance. We compared the participants of both programs to the State's payroll and retirement systems to ensure that the TPAs authorized benefits for only State employees. In addition, we reviewed the findings of an independent review of the LTD program and evaluated OSE's follow-up of that review.

To assess the effectiveness of OSE's efforts to evaluate and improve the cost-effectiveness of the programs, we analyzed the use of return-to-work and transitional employment programs and the use of independent medical examinations for both the workers' compensation and LTD programs. We also selected a sample of LTD participants to determine if their sick leave balances were exhausted prior to receiving benefits and to determine if LTD participants were receiving payroll warrants while receiving benefits. In addition, we performed analytical review on the limited data available from the LTD program TPA by comparing certain diagnosis and other characteristics to national norms and State trends.

To assess the effectiveness of OSE's efforts to provide technical assistance and support to State departments, we interviewed the four departments (DCH, DOC, DHS, and DMB) with the most active participation in these programs and reviewed the guidance provided to these departments.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 4 findings and 4 corresponding recommendations. OSE did not express agreement or disagreement with the 4 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit

fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DMB to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Workers' Compensation Administration, Employee Health Management, Department of Management and Budget (#0714596), in June 1997. Within the scope of this audit, we followed up 2 of the 9 prior audit recommendations. OSE complied with both prior audit recommendations.

COMMENTS, FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## EFFECTIVENESS OF OSE'S MONITORING

### COMMENT

**Audit Objective:** To assess the effectiveness of the Office of the State Employer's (OSE's) monitoring of the third party administrators' (TPAs') administration of the workers' compensation and long term disability (LTD) claims.

**Conclusion:** We concluded that OSE was effective in monitoring the TPAs' administration of the workers' compensation and LTD claims. We noted a reportable condition\* related to the monitoring of the LTD program TPA (Finding 1).

**Noteworthy Accomplishments:** OSE contracted for an independent assessment of the LTD program TPA after noting noncompliance with contract requirements and receiving an excessive number of complaints from State employees. The independent assessment identified significant weaknesses in the TPA's performance. As a result, OSE developed a 17-point corrective action plan for the TPA and collected a \$400,000 sanction for fiscal year 2002-03. Although the TPA's performance improved, OSE plans to assess and collect another \$223,414 from the TPA for contract noncompliance for fiscal year 2003-04.

### FINDING

#### 1. Monitoring of the LTD Program TPA

OSE did not ensure that the TPA implemented corrective action to make certain that LTD participants exhausted sick leave balances prior to receiving benefits. The TPA continued to make benefit payments to some employees who had not exhausted sick leave balances even after they had indicated to OSE that a processing problem had been corrected. The State's LTD program requires that claimants exhaust all sick leave balances to be eligible for LTD payments, with some exceptions for corrections officers and State police troopers. Improper payments made to employees prior to exhausting sick leave balances increase the cost of the LTD program for both the State and State employees participating in the program.

\* See glossary at end of report for definition.

From data provided by the TPA, we identified 3,600 LTD claimants whose benefits began in fiscal year 2003-04. We compared the date that the benefits began for these claimants with their sick leave balances as reported in the State's payroll system and identified 361 (10%) claimants whose sick leave balances ranged from 4 hours to 293 hours as of the date their benefits began.

We judgmentally selected 20 of the 361 claimants with sick leave balances ranging from 84 hours to 293 hours during our audit period. We determined that 12 (60%) of the 20 claimants improperly received LTD payments prior to exhausting sick leave balances. As a result, the State made overpayments to program participants of \$16,600 for our sampled items. We estimated that the LTD provider may have made overpayments of \$299,630 to other program participants who had not exhausted their sick leave balances prior to receiving benefits.

OSE informed us that the TPA had identified and corrected processing problems that resulted in overpayments in fall 2004 and was working with the departments to recoup the overpayments. However, because OSE did not validate that the TPA's corrective action was sufficient, OSE did not detect that the processing problem had not been corrected. Testing a sample of claimants to determine that corrective action is effective would assist OSE in ensuring that the appropriate corrective action had occurred and help to provide assurance that similar errors will not occur in the future.

### **RECOMMENDATION**

We recommend that OSE ensure that the TPA implements corrective action to make certain that LTD participants exhaust sick leave balances prior to receiving benefits.

### **AGENCY PRELIMINARY RESPONSE**

OSE did not express agreement or disagreement with the recommendation. OSE informed us that it has taken steps to ensure that the TPA is in compliance in resolving the sick leave balance issue. OSE informed us that it provided the TPA with a data file containing both sick leave balance information and pay period end date information and that information should have been sufficient to allow the TPA the ability to make payments in a proper manner. OSE informed us that after discovering the failings of the TPA, OSE subsequently provided detailed

explanations to the TPA to assist it in performing its responsibilities and demanded a performance penalty of \$136,784 to recognize this performance failure.

## **EFFECTIVENESS OF EFFORTS TO EVALUATE AND IMPROVE THE COST-EFFECTIVENESS OF PROGRAMS**

**Audit Objective:** To assess the effectiveness of OSE's efforts to evaluate and improve the cost-effectiveness of the workers' compensation and LTD programs.

**Conclusion:** We concluded that OSE was effective in its efforts to evaluate and improve the cost-effectiveness of the workers' compensation program. We also concluded that OSE was moderately effective in its efforts to evaluate and improve the cost-effectiveness of the LTD program. We noted reportable conditions related to independent medical examination (IME) data analysis, LTD return-to-work and transitional employment programs, and LTD program analysis (Findings 2 through 4).

### **FINDING**

#### **2. IME Data Analysis**

OSE did not obtain and evaluate IME data from the workers' compensation and LTD programs' TPAs. Therefore, OSE could not ensure that the TPAs were in compliance with contract requirements related to IMEs and could not assess the IMEs potential cost savings impact to the workers' compensation and LTD programs.

The contracts with the TPAs for the workers' compensation and LTD programs require that an IME be performed in selected situations. These situations include instances when: the treating physician is not cooperating or is not in communication with the TPA; there is a question of compensability; there are only subjective complaints; there is a question of how a physician is handling a case; there is a need to substantiate medical findings; or there is a reasonable expectation of litigation.

The LTD program TPA did not electronically collect IME information so that OSE could perform data analysis on the population and the use of IMEs. However, the TPA verbally informed us that, for fiscal year 2003-04, it requested 71 IMEs, of

which 40 IMEs were for psychiatric diagnosis, 14 were for musculoskeletal diagnosis, and 17 were for various other diagnoses. As a result of the IMEs, the TPA informed us that it denied or discontinued benefits for 20 (50%) of the 40 psychiatric cases and 4 (29%) of the 14 musculoskeletal cases. Based on the average week's duration for psychiatric cases and musculoskeletal cases and the average weekly salary of a classified employee for fiscal year 2001-02, we estimated that these IMEs saved the State an average of \$15,900 per psychiatric case and \$16,300 per musculoskeletal case.

Based on the limited information available from the LTD program TPA, we believe that IMEs are a cost-effective way to validate claims and the duration of the disability. In addition, IME data should be retained and made available to the State in electronic format so that OSE can monitor the use of IMEs to determine if IMEs are ordered in accordance with contract requirements and to perform an analysis to determine if certain types of claims are more susceptible to closure based on IMEs.

We could not obtain data regarding IMEs for the workers' compensation program because the TPA did not retain this data electronically, but rather retained the information in a hard copy format in each claimant's case file. We noted through a sample of 100 case file reviews that the TPA required IMEs in accordance with the contract requirements. However, because the IME data was not maintained electronically, OSE could not utilize the data to ensure that IMEs were ordered in accordance with contract requirements and to perform an analysis to determine if the IMEs help reduce costs or to identify patterns or other data irregularities that may lead to changes in the workers' compensation program.

### **RECOMMENDATION**

We recommend that OSE obtain and evaluate IME data from the workers' compensation and LTD programs' TPAs.

### **AGENCY PRELIMINARY RESPONSE**

OSE did not express agreement or disagreement with the recommendation. OSE informed us that it agrees that IMEs may be an effective way to control disability costs and it will obtain and evaluate IME data. OSE believes that it does ensure that the TPAs are in compliance with contract provisions and has established IME protocols with both TPAs. OSE informed us that the IMEs identified in the audit report were conducted based on significant medical nurse case review before

determining that an IME was recommended. The TPAs and OSE agree that the approach currently being taken is the most cost-effective approach. In addition, OSE informed us that the LTD program TPA utilized extensive medical peer review as part of its claim analysis, with the medical peer review including a board certified physician review of the file, as well as a phone consultation with the claimant's treating provider. OSE informed us that it believes that these peer review evaluations are significantly more cost-effective and less intrusive for State employees than utilizing the IME approach.

## **FINDING**

### **3. LTD Return-to-Work and Transitional Employment Programs**

OSE should require State departments to utilize the return-to-work and transitional employment programs for LTD participants. We believe that both programs would help reduce the cost of LTD to the State and to State employees participating in the programs and could help improve productivity at State departments.

OSE encourages, but does not require, State departments to use return-to-work and transitional employment programs to get employees who are on LTD back to work, even if the employee will be working in another position within the department or will be working on a part-time basis. OSE believes that getting the employee back to work would benefit the State by reducing workers' compensation and LTD costs and increasing productivity.

We noted that the four State departments we surveyed did not utilize return-to-work or transitional employment programs for LTD benefit recipients on a routine basis. State agency staff indicated that because LTD is a benefit and the employee is not required to accept an alternate position or to return to work on a part-time basis, it is an inefficient use of time and resources to put them through the programs, only to have them refuse to take a position when training is completed. Also, one agency informed us that because LTD claimants are not on the State's payroll and deal directly with the LTD program TPA, the department does not have sufficient case information to utilize a return-to-work or transitional employment program. However, we noted that the contract with the LTD program TPA requires that the TPA work with the departmental case manager to promote the return-to-work and transitional employment programs, including ensuring that information and documentation are readily available in the claim file.

OSE should take steps to increase the use of such programs within the LTD program by enforcing the TPA contract, providing additional assistance to the case managers, or recommending changes to the State's LTD program that would require participants to utilize these types of programs similar to the workers' compensation program requirements.

### **RECOMMENDATION**

We recommend that OSE require State departments to utilize the return-to-work and transitional employment programs for LTD participants.

### **AGENCY PRELIMINARY RESPONSE**

OSE did not express agreement or disagreement with the recommendation. OSE informed us that while OSE agrees that it should continue to expand the use of return-to-work and rehabilitation efforts, OSE has determined that it is not always cost effective or appropriate to require departments or claimants to participate in these efforts. OSE informed us that it is continuing to implement appropriate new transitional employment programs throughout the State, as permitted by budget and staffing, but that, in some instances, based on the nature of employment and types of alternative work available, transitional employment may not be appropriate for a given department. OSE informed us that requiring employees to pursue mandatory participation in rehabilitation within the LTD plan would require changes in the bargaining unit agreements and that this issue has been raised during the last two bargaining sessions. OSE informed us that at present, nearly 50% of the State's transitional employment participants are voluntary LTD claimants and the current approach for the transitional employment program is showing over a 6 to 1 return on investment.

### **FINDING**

#### **4. LTD Program Analysis**

OSE did not formally evaluate LTD program data that would have assisted OSE in identifying areas for program improvement and cost savings. Formal evaluation of program data would provide OSE with a means to identify trends or diagnostic codes that are outside normal expectations and areas for improvement or change to the LTD program.

OSE could evaluate the State's program by comparing it to national statistics or similar LTD programs. Examples of program statistics that could be evaluated include comparisons of diagnostic codes and claimant characteristics by job classification, department, duration of disability, and cost. Analyzing detailed program data may identify disproportionate claims activity that could indicate a need for additional or target training or workplace analysis and may further identify circumstances that may be contributing to excessive LTD claims.

For example, using the limited electronic data from the LTD program TPA, we noted that State employee psychiatric claims accounted for 29% and 26% of all LTD claims in fiscal years 2002-03 and 2003-04, respectively. We compared this to national statistics compiled by the Insurance Information Institute and noted that the average LTD claim for mental disorders is approximately 9% of claims. Although the population for the Insurance Information Institute's calculation includes private and public sector entities, the discrepancy may warrant further review and analysis focusing on potential causes for the higher rate of occurrence in the State and possible solutions to reduce these instances.

OSE indicated that it believed that these types of claims were unusually high and, therefore, renegotiated limits to the length of time a psychiatric claim would be covered under the program with some unions during fall 2004. However, OSE did not investigate further to determine if the higher percentages were related to specific departments, jobs, or employees. Further analysis may identify workplace or other safety issues or indicate a need for more aggressive clinical management of claims.

OSE informed us that it had been trying to obtain complete and accurate program data from the TPA since the inception of the contract in 2002 to perform some analysis; however, OSE did not believe that the TPA had retained sufficient and accurate data in a manner that OSE felt would provide a useful analysis. OSE informed us that the first useable reports were obtained as of the fourth quarter of calendar year 2004.

## **RECOMMENDATION**

We recommend that OSE formally evaluate LTD program data to assist OSE in identifying areas for program improvement and cost savings.

## **AGENCY PRELIMINARY RESPONSE**

OSE did not express agreement or disagreement with the recommendation. OSE informed us that it initiated claim analysis reporting with the former TPA in the late 1990's and continued to require that information through its contract with the subsequent TPA, and OSE is expanding its evaluation of LTD program data.

## **EFFECTIVENESS OF EFFORTS TO PROVIDE TECHNICAL ASSISTANCE AND SUPPORT**

**Audit Objective:** To assess the effectiveness of OSE's efforts to provide technical assistance and support to State departments in administration of the workers' compensation and LTD programs.

**Conclusion:** We concluded that OSE was effective in its efforts to provide technical assistance and support to State departments in administration of the workers' compensation and LTD programs. Our audit report does not include any reportable conditions related to this audit objective.

## SUPPLEMENTAL INFORMATION

WORKERS' COMPENSATION AND LONG TERM DISABILITY PROGRAMS  
 Office of the State Employer  
 Department of Management and Budget  
Fiscal Year 2003-04 Long Term Disability Employee Contribution Rates by Plan Level

Plan Level	Sick Leave Hours	Employee Contribution Per \$100 of Gross Wages
1	Employee has never accumulated 184 hours.	\$2.13
2A	Employee's current balance is between 184 and 528 hours.	\$0.58
2B	Employee's current balance is greater than 528 hours.	\$0.00
2C	Employee has previously accumulated 184 hours, but balance is currently below 184 hours.	\$1.79

Source: LTD and Income Protection Plan for State of Michigan Employees booklet, October 1, 2002.

WORKERS' COMPENSATION AND LONG TERM DISABILITY PROGRAMS  
Office of the State Employer  
Department of Management and Budget  
Non-Occupational Long Term Disability Claims by Diagnosis  
Claims Open During Fiscal Year 2001-02 Regardless of When Incurred

Cause of Disability	October 1, 2001 - October 1, 2002				
	Number of Claims	Number of Weeks	Average Weeks	Total Claim Cost	Avg. Claim Cost/Claim
Accidents, poisoning, and violence	401	6,777.1	16.9	\$ 1,496,522	
Acquired immune deficiency syndrome	5	260.7	52.1	17,184	
Alcohol/drug	21	286.3	13.6	64,381	
Allergic, endocrine system, metabolic, and nutrition	109	1,395.4	12.8	303,104	
Benign and unspecified neoplasms	104	1,701.0	16.4	399,305	
Congenital malformations	11	299.9	27.3	71,264	
Diabetes	43	1,358.9	31.6	188,712	
Diseases of bones and organs of movement	1,032	29,945.0	29.0	4,830,802	
Diseases of the blood and forming organs	24	829.6	34.6	110,013	
Diseases of the digestive system	246	3,430.7	13.9	709,195	
Diseases of the genitourinary system	202	2,664.3	13.2	588,710	
Diseases of the nervous system and sense organs	342	12,018.3	35.1	1,732,214	
Diseases of the skin and cellular system	45	910.6	20.2	169,394	
Emphysema or asthma	37	1,157.3	31.3	177,831	
Heart disease	245	8,123.3	33.2	1,310,033	
Infective and parasitic diseases	50	1,387.6	27.8	285,826	
Malignant neoplasms (cancer)	161	4,504.0	28.0	1,133,467	
Mental, psychoneurotic, and personal disorders	1,074	30,276.0	28.2	5,844,499	
Other diseases of the circulatory system	204	7,276.4	35.7	1,014,959	
Other diseases of the respiratory system	116	2,682.6	23.1	344,929	
Pneumoconiosis including silicosis	2	54.4	27.2	17,059	
Pregnancy	189	2,149.6	11.4	676,295	
Senility	12	586.6	48.9	61,931	
Non-Occupational State Summary Total	<u>4,675</u>	<u>120,075.4</u>	25.7	<u>\$ 21,547,629</u>	\$4,609

Source: State of Michigan, Non-Occupational Long Term Disability Claims by Diagnosis, Claims Open during FY00, FY01, and FY02 Regardless of when Incurred Report, prepared by Aetna Life Insurance Company.

WORKERS' COMPENSATION AND LONG TERM DISABILITY PROGRAMS  
Office of the State Employer  
Department of Management and Budget  
Occupational Long Term Disability Claims by Diagnosis  
Claims Open During Fiscal Year 2001-02 Regardless of When Incurred

Cause of Disability	October 1, 2001 - October 1, 2002				
	Number of Claims	Number of Weeks	Average Weeks	Total Claim Cost	Avg. Claim Cost/Claim
Accidents, poisoning, and violence	66	1,900	28.8	\$ 251,263	
Allergic, endocrine system, metabolic, and nutrition	3	86	28.6	23,014	
Diabetes	1	52	0.0	0	
Diseases of bones and organs of movement	202	7,689	38.1	863,229	
Diseases of the blood and forming organs	1	52	52.1	10,102	
Diseases of the digestive system	5	97	19.3	19,361	
Diseases of the genitourinary system	1	9	9.1	2,991	
Diseases of the nervous system and sense organs	28	944	33.7	123,302	
Diseases of the skin and cellular system	1	2	2.1	0	
Emphysema or asthma	4	52	12.9	4,061	
Heart disease	8	311	38.8	19,622	
Infective and parasitic diseases	1	52	52.1	0	
Malignant neoplasms (cancer)	1	52	52.1	0	
Mental, psychoneurosis, and personal disorders	431	12,555	29.1	3,177,305	
Other diseases of the circulatory system	6	313	52.1	15,546	
Other diseases of the respiratory system	5	190	38.0	58,671	
Pneumoconiosis including silicosis	1	52	52.1	0	
Senility	1	52	52.1	0	
Unknown	343	4,634	13.5	1,372,598	
Occupational State Summary Total	<u>1,109</u>	<u>29,095</u>	26.2	<u>\$ 5,941,065</u>	\$5,357

Source: State of Michigan, Occupational Long Term Disability Claims by Diagnosis, Claims Open during FY00, FY01, and FY02 Regardless of when Incurred Report, prepared by Aetna Life Insurance Company.

WORKERS' COMPENSATION AND LONG TERM DISABILITY PROGRAMS

Office of the State Employer

Department of Management and Budget

Comparison of Selected Long Term Disability (LTD) Plans

LTD Plan	State of Michigan	State of New York
<b>Must use all sick leave before collecting benefits?</b>	Yes.	Yes.
<b>Number of days an employee must be off before collecting?</b>	14 days.	14 days for short term disability; 6 months for long term disability.
<b>How long does coverage last?</b>	Age 70, if totally disabled.	6 months for short term disability; Up to age 65 for long term disability.
<b>How much income?</b>	Two thirds of the employee's gross monthly wage; certain departments allowed to get up to 100% under certain circumstances. \$5,000 maximum per month or \$3,000 for State troopers and sergeants. The benefits are taxed but only 40% of the benefit amount is taxable for plan I employees and 57% of the benefit amount is taxable for plan II employees.	50% of income not to exceed \$961.54 per week for short tem disability. 60% of the employee's income not to exceed \$5,000 per month for long term disability. Long term disability benefits are subject to state and federal income taxes.
<b>Eligibility requirement for LTD?</b>	For the first 24 months, the employee must be considered disabled to perform his or her current position. After 24 months, the employee must be considered unable to perform any job for which the employee has education or training. Also, in all cases, the employee must have exhausted all sick leave balances.	Must have 6 months of active New York State service and be a member of a public retirement system of New York State or an optional retirement program.
<b>Cost to the employee?</b>	If the employee has never accrued 184 hours of sick leave, it is \$2.13 per \$100 of payroll. If the employee has between 184 and 528 hours of sick leave, it is \$.58 per \$100 payroll. If the employee has more than 528 hours of sick leave, it costs nothing. If the employee has accrued 184 or more hours of sick leave and then falls back below, it is \$1.79 per \$100 of payroll.	No cost. This plan is entirely funded by the State of New York.

*This comparison continued on next page.*

State of Ohio	State of Indiana	State of Wisconsin	Privately Offered LTD Plan
No. May still accrue sick leave during first 6 months.	No. Leave balances do not accrue while on long term disability.	No. May turn in sick leave to pay group insurance premiums.	No.
14 days.	30 days for short term disability; 6 months for long term disability.	No waiting period.	180 days.
Maximum of 2 years per disability.	Short term disability maximum is 5 months. Long term disability maximum is 2 years if the employee's condition keeps him or her from performing the specific duty. Eligible for a third and fourth year of long term disability if the employee cannot perform any position for which the employee would be qualified. Limited to 24 months for mental related illnesses.	Age 65, unless the employee is 61 or older when he or she starts receiving long term disability payments.	Age 70. Mental and nervous conditions are payable up to 24 months.
For first 6 months, the employee will receive 70% of his or her base pay. If the disability lasts longer than 6 months, the employee will receive 50% of his or her base pay.	For short term disability, 60% of base rate. For long term disability, during the first and second year, the claimant would receive 50% of his or her base pay and, for the third and fourth year, the claimant would receive 40% of his or her base pay rate.	40% of the employee's final average salary.	60% of the employee's monthly earnings.
Must have completed 1 year of continuous state service immediately prior to date of the employee's injury or illness.	Must have completed 6 months of continuous full-time service to be eligible for short term disability or long term disability benefits. Must be absent due to an injury or illness as evidenced by a physician's signed statement.	The employee must end employment due to the disability. Employer must certify to Wisconsin Department of Employee Trust Funds that employment ended as a result of a disability. The employee must be a participating Wisconsin retirement system employee, must have earned .33 years of creditable service in at least 5 of the previous 7 years, and must not be entitled to further earnings from his or her employer and 2 licensed physicians approved or appointed in advance by CORE INC. must certify that the employee meets the disability definition and the employee must terminate employment with the State of Wisconsin.	For the first 24 months, the employee must be unable to perform his or her current job for longer than 24 months and must not be able to perform any job that the employee is trained for. Must have been covered under the privately offered LTD plan for 12 consecutive months.
No cost. This plan is entirely funded by the State of Ohio.	.25% of the employee's gross pay per pay period.	No cost.	Age sensitive. Under age 30, it is \$1.70 per \$100 LTD scheduled benefit. The rate per \$100 LTD scheduled benefits increases with age.

WORKERS' COMPENSATION AND LONG TERM DISABILITY PROGRAMS

Office of the State Employer  
 Department of Management and Budget  
Comparison of Selected Long Term Disability (LTD) Plans  
*Continued*

<b>LTD Plan</b>	<b>State of Michigan</b>	<b>State of New York</b>
<b>Pre-existing condition clauses?</b>	No benefits will be payable for a period of disability that starts during the first 12 months of the employee's current period of coverage under the plan if the disability is caused by or related to a disease, injury, or covered pregnancy, for which the employee receives medical treatment or services, or took drugs or medicines that were prescribed or recommended by a physician during the 6 months immediately preceding the date the employee became insured.	No. Long term disability benefits are payable for any disability that begins before the employee has been continuously insured under the income protection plan for 12 months, if the disability results from a sickness or injury for which the employee consulted a doctor or took prescribed medication during the 6 months preceding the effective date of the employee's coverage and for which the employee was out of work because of that condition during that same 6-month period. If the first 12 months passed without the onset of a disability, all pre-existing condition limitations are removed.
<b>Disabilities due to alcohol or drug abuse?</b>	Covered.	Disabilities related to alcohol or drug abuse will be covered only if the employee is actively supervised by and receiving treatment from a rehabilitation center or rehabilitation program supervised by a licensed practitioner and approved by Metropolitan.
<b>Independent medical examinations (IMEs) required?</b>	IMEs can be required. This determination is made by the third party administrator.	If a disability appears questionable or uncertain to Metropolitan or if medical information is incomplete, Metropolitan may request additional medical information, which must be provided within 180 days of Metropolitan's date of request. The employee may be required to be examined by a doctor at Metropolitan's expense. This may be done as often as Metropolitan reasonably chooses.
<b>Health insurance premiums covered?</b>	State sponsored health program and health maintenance organization premium covered for first 6 months.	Health care, dental, and vision costs are covered for 6 months. After that, the employee must pay for coverage through direct payments. However, the employee can apply for a waiver of premium for up to 1 year.

State of Ohio	State of Indiana	State of Wisconsin	Privately Offered LTD Plan
No language banning pre-existing conditions.	No language banning pre-existing conditions.	No language banning pre-existing conditions.	Varies from state to state; must review the employee's particular plan.
Covered if receiving ongoing treatment, receiving treatment from a licensed mental health provider, and the health provider determines that the condition or treatment will prevent performance of job duties for more than 14 days.	Covered up to 24 months.	Does not state if covered or uncovered.	Does not state if covered or uncovered.
This is done if the employee's claim is denied, but he or her must request the third party medical review within 30 calendar days of the denial.	The appointing authority, state personnel department, or disability determination division of the Department of Human Services may require examinations by designated physicians. Refusal of such examinations results in disqualification of benefits.	In each case, the long term disability provider requires that the employee obtain a second opinion from a physician on the approved list.	No mention of IMEs.
The State of Ohio pays the employee's health insurance while he or she is on disability leave.	Health benefits are continued and employee contributions are deducted from the disability payments.	Health premiums are waived if the employee is totally and permanently disabled.	Not addressed.

# GLOSSARY

## Glossary of Acronyms and Terms

assault claims	Claims from specific departments (the Departments of Community Health, Corrections, Human Services, Military and Veterans Affairs, and State and the Michigan Department of State Police) for employees who are assaulted on the job. Unlike other workers' compensation claims, the employee remains in full pay status without using sick or annual leave credits if the injury meets the statutory or contractual provisions for assault claims. These are also referred to as 100% claims.
DCH	Department of Community Health.
DHS	Department of Human Services.
DMB	Department of Management and Budget.
DOC	Department of Corrections.
effectiveness	Program success in achieving mission and goals.
IME	independent medical examination.
long term disability (LTD)	A plan that pays a monthly benefit during an employee's period of total disability which renders the employee unable to work at the employee's usual occupation for the first 24 months or at any reasonable occupation after the first 24 months.
mission	The agency's main purpose or the reason that the agency was established.
OSE	Office of the State Employer.

performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
third party administrator (TPA)	An insurance company or other entity separate from the State hired to administer the insurance claims expenses.
workers' compensation	A statutorily required insurance to cover job-related accidental injury, disease, or death to covered employees. The insurance provides compensation for lost wages and for medical and legal expenses.



