

## EXECUTIVE DIGEST

# WORKERS' COMPENSATION ADMINISTRATION

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### INTRODUCTION

This report, issued in June 1997, contains the results of our performance audit\* of Workers' Compensation Administration, Employee Health Management, Department of Management and Budget (DMB).

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### AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness\* and efficiency\*.

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### BACKGROUND

The State has self-insured\* its claims for workers' compensation\* since the adoption of the Workers' Compensation Act of 1912 and has always contracted with a third party administrator\* (TPA) to administer its workers' compensation claims. Since 1987, DMB has been responsible for the centralized management of the State's workers' compensation program. The Risk Management Division was responsible for these functions; however, the Division became a unit of Employee Health Management (EHM) beginning in fiscal year 1996-97.

EHM was established to improve the State's risk control policies and procedures and is responsible for the centralized purchasing of certain insurance coverage\* . EHM processes monthly billings to each of the State's

departments, remits payment to the TPA, and maintains and also provides summary claims information to each of the departments. EHM bills the departments for actual expenses plus administrative fees charged by the TPA and EHM.

The claims management responsibilities are coordinated between the TPA and personnel from each department or, in some cases, from each agency within a department. The departments work with the TPA to ensure that employees are eligible for the benefits they receive, receive the benefits they are due, and do not abuse the system.

According to the TPA's data, State of Michigan employees filed 7,961 injury reports during fiscal year 1994-95, with 1,232 of these injuries resulting in lost work time and compensatory payments.

In fiscal year 1995-96, EHM paid \$41.9 million to the TPA for State of Michigan workers' compensation benefits.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To assess the effectiveness of the State in ensuring the accuracy of the State's workers' compensation claims.

**Conclusion:** Our assessment concluded that the State was generally effective in ensuring the accuracy of its workers' compensation claims. However, we noted reportable conditions\* related to the removal of names from employment listings\* , the addition of comment lines\* to employee history files\*, and the consistency of terminology in redemption\* legal documents (Findings 1 through 3).

**Audit Objective:** To assess the effectiveness of the State's internal control structure\* over workers' compensation claims.

**Conclusion:** Our assessment concluded that the State's internal control structure over workers' compensation claims was generally effective. However, we noted reportable conditions related to the development of procedures for computing benefits, strengthening of the internal control structure over assault claims\*, coordination of data matches with the Michigan Employment Security Commission (MESC), and the timely submission of accident reports (Finding 4 through 7).

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of the State of Michigan's workers' compensation administration. Our audit was conducted in accordance with generally accepted auditing standards and *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.

We interviewed staff and management from EHM, the State's TPA, and six State departments to gain an understanding of the purpose and responsibilities of the State's workers' compensation program.

We reviewed EHM's oversight responsibilities for the State's workers' compensation program. We evaluated the reasonableness of the tests and monitoring performed by the State and the TPA. We examined the internal control structure.

For our testing population, we considered all employee injuries occurring during the period October 1, 1991 through June 30, 1996. We verified the accuracy of the TPA's compensation payments, the State's 2/3 supplement\* payments, and the State's assault claim payments. We reviewed legal documents for redemption settlements\* for consistency in the terms and conditions. We matched employees who had waived rights to future State employment against subsequent State payroll records, the Department of Civil Service employment lists, and Michigan Employment Security Commission records. We also reviewed selected employee history files to determine if the history file identified that the employee had had a workers' compensation claim or a redemption settlement or had signed a waiver of future employment\* with the State.

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**AGENCY RESPONSES**

Our audit report includes 7 findings and 10 corresponding recommendations. DMB agreed with the recommendations.