

**Office of the Auditor General**  
Performance Audit Report

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**Workers' Disability Compensation Agency**  
Department of Labor and Economic Opportunity

December 2019

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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.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Workers' Disability Compensation Agency (WDCA)*

### *Department of Labor and Economic Opportunity*

**Report Number:**  
**641-0470-18**

**Released:**  
**December 2019**

Effective August 11, 2019, Executive Order No. 2019-13 transferred the Workers' Compensation Agency from the Department of Licensing and Regulatory Affairs to the Department of Labor and Economic Opportunity (formerly the Department of Talent and Economic Development) and renamed it as the Workers' Disability Compensation Agency. WDCA's mission is to efficiently administer the Worker's Disability Compensation Act and provide prompt, courteous, and impartial service to all customers. Workers' disability compensation provides wage replacement, medical, and rehabilitation benefits to employees who suffer work-related injuries. As of December 31, 2017, WDCA had 62 employees and expended \$10.0 million for administration for fiscal year 2017.

Generally accepted government auditing standards require us to report significant constraints imposed upon the audit approach. We encountered one issue applicable to Objective #1 that necessitates reporting.

To identify potential Michigan businesses that may not be covered for workers' compensation insurance, we requested employer records from the Unemployment Insurance Agency (UIA), Department of Labor and Economic Opportunity. We intended to match the active employers in UIA's database against the population of active employers in WDCA's Workers' Compensation System. UIA declined our request for the data, which prevented us from determining the completeness of WDCA's employer population. We ultimately obtained the UIA data in October 2019, and we will report the results of our data match in a separately issued report.

Audit Objective	Conclusion
Objective #1: To assess the effectiveness of WDCA's efforts to ensure employer compliance with selected requirements of the Worker's Disability Compensation Act.	Moderately effective

<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
<p>WDCA could improve its efforts to protect Michigan employees from lost compensation because of a job-related injury by:</p> <ul style="list-style-type: none"> <li>• Following up on employers whose requests for exclusion from workers' compensation coverage were denied.</li> <li>• Properly documenting follow-up for employers whose insurance was canceled.</li> <li>• Properly tracking follow-up of employers who allowed their coverage to lapse (<u>Finding #1</u>).</li> </ul>		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #2: To assess the effectiveness of WDCA's oversight of workers' compensation wage loss claims.			Effective
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
<p>WDCA's review of 195 potentially inaccurate claims, flagged as delinquent for lack of response from insurance carriers, were outstanding an average of 307 days. Enhanced follow-up with insurance carriers may foster more timely and accurate initial reporting and reduce the need for further contact by WDCA (<u>Finding #2</u>).</p>		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #3: To assess the effectiveness of WDCA's administration of select funds.			Effective
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
None reported.	Not applicable.		

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**Doug A. Ringler, CPA, CIA**  
Auditor General

December 5, 2019

Mr. Jeff Donofrio, Director  
Department of Labor and Economic Opportunity  
300 North Washington Square  
Lansing, Michigan  
and

Mr. Mark C. Long  
Chair, Board of Trustees for the Funds Administration  
Director, Workers' Disability Compensation Agency  
Department of Labor and Economic Opportunity  
2501 Woodlake Circle  
Okemos, Michigan

Dear Mr. Donofrio and Mr. Long:

This is our performance audit report on the Workers' Disability Compensation Agency (WDCA), Department of Labor and Economic Opportunity.

We organize our findings and observations by audit objective. WDCA provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# COMPLIANCE WITH WORKER'S DISABILITY COMPENSATION ACT

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## BACKGROUND

The Worker's Disability Compensation Act of 1969 (the Act), being Sections 418.101 - 418.941 of the *Michigan Compiled Laws*, requires employers to compensate workers for injuries suffered on the job, including certain wage loss benefits, the cost of medical treatment, and certain rehabilitation services. Generally, the Act applies to private employers who have three or more employees at any one time or who employ one or more workers for 35 or more hours per week for 13 or more weeks of the preceding 52 weeks and public employers, irrespective of the number of persons employed.

Employers have three options to satisfy coverage requirements of the Act:

- Self-insured: The employers assume responsibility for the direct payment of benefits to injured workers and are generally large, stable corporations and governmental entities that have the financial strength to cover all of their workers' compensation claims\*. Individual employers may apply as self-insurers\*, or two or more employers in the same industry may apply as a self-insurer group.

The Workers' Disability Compensation Agency (WDCA) reviews the self-insurer's annual applications and, if approved, determines required security and exposure limiting devices such as surety bonds, letters of credit, and excess insurance\* policies. Each of the employer members participating in a self-insurer group possess ownership in its proportional share of the assets of the group in excess of the self-insurer group obligations. The trustees of the self-insurer group may distribute surplus funds with WDCA's approval.

- Third-party insurance coverage: The employers obtain a workers' compensation insurance policy through a third-party insurer\*.

Insurers who issue workers' compensation policies in Michigan are required to provide WDCA with a notice of issuance of the policy and its effective date.

- Excluded: WDCA may approve an employer's exclusion request if the employer is a sole proprietorship and all employees are the spouse, child, or parent of the sole proprietor; a partnership where all employees are partners; a stock corporation where all employees are corporate officers and own 10% or more stock in the corporation; or a limited liability company

\* See glossary at end of report for definition.

where all employees are members and managers and own 10% or more interest in the business.

WDCA tracks employer compliance information in its Workers' Compensation System (WORCS) and can generate WORCS reports to identify employers whose insurance coverage lapsed or was canceled. WDCA indicated that, as of December 31, 2017, it maintained workers' compensation coverage records for over 273,000 active employers in WORCS.

**AUDIT OBJECTIVE**

To assess the effectiveness\* of WDCA's efforts to ensure employer compliance with selected requirements of the Act.

**CONCLUSION**

Moderately effective.

**FACTORS  
IMPACTING  
CONCLUSION**

- WDCA properly approved and obtained surety bonds, letters of credit, and excess insurance policies, as it determined necessary, for the 15 individual and 3 self-insured group employers' applications that we reviewed.
- WDCA properly approved and tracked the 12 surplus funds disbursement requests for the 3 self-insurer groups that we reviewed.
- WDCA appropriately processed the 15 approved exclusion applications that we reviewed.
- Reportable condition\* related to WDCA's efforts to ensure that employers obtain and maintain required workers' disability compensation insurance coverage (Finding #1).

\* See glossary at end of report for definition.

## FINDING #1

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### Improved efforts needed to ensure insurance coverage.

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WDCA could improve its efforts to ensure that employers obtain and maintain the required workers' disability compensation insurance coverage. Michigan's workforce relies on workers' disability coverage of wage loss benefits, medical treatment costs, and vocational rehabilitation services in the event of a job-related injury.

Section 418.611 of the *Michigan Compiled Laws* requires all employers who are not excluded by the workers' compensation laws to either be approved by WDCA as self-insured or be covered by an insurance carrier for workers' disability compensation. WDCA's goals include monitoring and enforcing employers' compliance with the requirements for insurance coverage.

Our review noted that WDCA:

- a. Did not monitor employers whose requests for exclusion from workers' compensation coverage were denied to determine whether they had subsequently complied with the coverage requirements outlined in Section 418.611 of the *Michigan Compiled Laws*.

Section 418.161 of the *Michigan Compiled Laws* allows certain employers to be excluded from provisions of the Act.

WDCA denied approximately 100 of the 2,514 employer notice of exclusion request forms received during our audit period; however, it did not follow up to verify the employer's subsequent compliance. Our review of 10 randomly selected denied forms noted that 4 (40%) employers did not have insurance coverage as of May 2, 2018.

WDCA indicated that it had followed up on denied forms in the past; however, it did not have a formal written process to require follow-up.

- b. Did not document that it followed up on employers whose workers' compensation coverage was canceled to determine whether they had subsequently obtained required coverage.

Section 18.1285 of the *Michigan Compiled Laws* requires that WDCA maintain records that are necessary for the adequate and proper recording of its activities. Also, Section 18.1485 of the *Michigan Compiled Laws* requires that WDCA establish and maintain an administrative control system that includes recordkeeping procedures and effective and efficient control techniques.

WDCA indicated that it obtained a daily report of employers whose workers' compensation coverage had been canceled, and it identified and investigated the

employers who had employees as indicated in the Unemployment Insurance Agency (UIA) database. However, WDCA did not maintain or document its review of the daily report or track which employers it investigated.

Upon our request, WDCA created a listing of the 15,071 employers whose coverage was canceled from October 1, 2015 through December 31, 2017 and who did not have insurance coverage as of February 21, 2018. We reviewed 25 of the 15,071 employers and noted that WDCA did not have documentation that it had investigated 22 (88%) of these employers, including 20 employers who we identified as licensed businesses as of April 16, 2018. WDCA's subsequent follow-up of these 20 employers noted that 2 had insurance coverage under a different identification number and 18 either were not found or had reported having no employees in the UIA database, meaning that they likely were not required to have workers' compensation insurance. However, WDCA could not substantiate that it had investigated these employers prior to our audit.

- c. Did not effectively track its follow-up of employers who allowed their workers' compensation insurance coverage to lapse.

WDCA indicated that it generated a daily report of employers who had obtained coverage after a lapse period of at least 30 days and who met other certain criteria. However, WDCA:

- (1) Did not design the lapse report parameters to identify the employers for whom the number of employees or payroll amount fields were blank. As a result, WDCA may not have identified all applicable employers with a lapse in coverage. WDCA could not provide us with a list of such employers; however, during the course of our audit, we observed instances in which one or both of the fields were blank.
- (2) Did not sufficiently document or ensure timely follow-up of employers identified on the lapse report.

WDCA indicated that it distributed the lapse report among various employees to research the appropriateness of the lapse in coverage or to decide if a penalty should be assessed. However, our review noted that WDCA did not require its employees to document their review of the daily lapse report or track which employers were followed up, have a managerial review process, or track assessed penalties. Also, our review of WDCA's follow-up of 20 open employer

files and WDCA's penalty tracking spreadsheet noted:

(a) As of February 2, 2018:

- WDCA's follow-up of 12 files had been in process for more than 180 days, including 4 files for which follow-up had been in process for more than 365 days.
- 3 files did not contain a notice of penalty assessment and were unresolved for 51 to 259 days.
- None of the 17 employers, for whom WDCA had assessed penalties totaling \$13.3 million, were identified on WDCA's penalty tracking spreadsheet. WDCA indicated that it tracks penalties only if a payment is made.
- WDCA's penalty tracking spreadsheet identified 127 employers who had paid \$297,000 of their \$450,000 in assessed penalties from October 1, 2015 through December 31, 2017. However, WDCA did not document collection efforts for the outstanding balance of \$153,000.

(b) As of April 18, 2018, WDCA had closed 7 of the 20 files, including 2 files that were closed without sufficient documentation or collection of assessed penalties exceeding \$500.

WDCA informed us that WORCS is outdated and does not have the ability to track employers whose coverage has lapsed with sufficient detail. However, we encourage WDCA to develop a mechanism outside of WORCS to track the status of the employer follow-up and the assessed penalties.

## **RECOMMENDATION**

We recommend that WDCA improve its processes to enforce employers' compliance with workers' disability compensation insurance coverage requirements.

## **AGENCY PRELIMINARY RESPONSE**

WDCA provided us with the following response:

*We agree. WDCA will improve its documentation and tracking of follow up efforts regarding employer compliance enforcement.*

*Procedures requiring the documentation of all follow up efforts will be implemented. WDCA is in the process of replacing its 30-year old automated system. The new system will provide more robust tracking of exception cases. The new system is expected to be completed in the 3rd quarter of 2020.*

*WDCA's improvements will address the following issues noted:*

- 1a. Monitoring and following up on employers whose requests for exclusion from workers' compensation coverage were denied.*

*WDCA implemented a procedure requiring staff to follow up on denied employers to ensure that coverage requirements outlined in the Worker's Disability Compensation Act are being met.*

- 1b. Properly documenting follow-up for employers whose insurance was canceled.*

*Although correspondence with canceled employers is currently performed, the tracking and documentation of these efforts will be implemented. WDCA will develop ad hoc reporting which will enable it to identify and track the status of employers selected for expanded compliance follow up efforts.*

*In addition, WDCA will continue to pursue partnerships with other State agencies for the sharing of automated employer information. This information will allow for the development of a more efficient process for identifying employers who may be non-compliant with the provisions of Section 418.611 of the Michigan Compiled Laws.*

- 1c. Properly tracking follow-up of employers who allowed their coverage to lapse.*

*The feasibility of changes to the parameters of the current lapse in coverage reporting will be evaluated. Pending that change, and the new system implementation, we have developed and implemented a spreadsheet tracking process to improve the identification and follow up of employers with lapsed coverage. Procedures requiring the timely follow up and documentation regarding the disposition of all closed files will be implemented.*

# OVERSIGHT OF WORKERS' COMPENSATION WAGE LOSS CLAIMS

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## BACKGROUND

WDCA maintains insurer, employer, or employee submitted information about workers' compensation policies, wage loss claims, and disputes in WORCS and its records management system. Automated edits in WORCS generate notification letters if required information is missing or appears to be inaccurate. These system edits and WDCA's manual review help to ensure accurate and timely wage loss claim payments. WDCA indicated that it processed 540,048 forms and other correspondence related to insurance policies, wage loss claims, and claim disputes in fiscal year 2017. WDCA informed us that, for calendar years 2016 and 2017, carriers\* paid wage loss benefits totaling \$298.5 million to 35,219 claimants\* and \$284.6 million to 33,427 claimants, respectively.

WDCA also oversees compensation payments through the Compensation Supplement Fund. Section 418.352 of the *Michigan Compiled Laws* requires carriers to supplement the weekly compensation amount for employees receiving benefits for injuries sustained from September 1, 1965 through December 31, 1979. WDCA processes carrier reimbursement requests on a quarterly basis through direct payment or as a tax credit claimed on the carriers' Michigan business tax return. Information provided by WDCA for calendar year 2017 indicated that its Compensation Supplement Fund reimbursed carriers \$1.6 million for supplemental benefits paid to individuals on 3,549 claims. That number will continue to decrease as the population ages.

## AUDIT OBJECTIVE

To assess the effectiveness of WDCA's oversight of workers' compensation wage loss claims.

## CONCLUSION

Effective.

## FACTORS IMPACTING CONCLUSION

- WDCA ensured that the wage loss payments to claimants, as reported on the insurance carriers' report of injury forms, were calculated accurately for the 17 workers' compensation wage loss claims that we reviewed.
- WDCA timely processed applications for a claim mediation or hearing for the 13 applications that we reviewed.
- WDCA ensured that payments to carriers, for the 20 reimbursement requests that we reviewed, from the Compensation Supplement Fund related to eligible claimants and were calculated accurately.

\* See glossary at end of report for definition.

- All 89 users with access to WORCS were active State employees, and the access rights for the 9 users that we reviewed were appropriate.
- Reportable condition related to improving WDCA's claims review process (Finding #2).

## **FINDING #2**

### **Claims review process could be improved.**

WDCA could improve its process to review workers' compensation wage loss claim payment amounts identified as potentially inaccurate. Timely follow-up with the insurance carriers may help to encourage more timely and accurate reporting, reducing the number of claim amounts identified as potentially inaccurate and the need for further contact by WDCA.

One of WDCA's goals is to ensure that claimants are provided accurate wage loss replacement benefits in a timely manner. Also, Section 418.631 of the *Michigan Compiled Laws* provides that the WDCA director may recommend that a carrier's license be revoked for repeatedly or unreasonably failing to promptly pay workers' compensation claims or repeatedly failing to provide required reports.

WDCA tracks information provided by the insurance carriers for each workers' compensation wage loss claim paid, verifies the claim payment amounts, and requests carriers to provide missing or corrected information if the amounts appear to be inaccurate. If information is not provided within 120 days, the claim is flagged as delinquent. As of February 28, 2018, insurance carriers had not responded to WDCA's request for information for 195 potentially inaccurate claims (173 claimants) that WDCA had flagged as delinquent. WDCA's follow-up of these claims had been outstanding by an average of 307 days.

WDCA's documentation of its verification of the accuracy of the claim payment amounts for 83 of the 173 claimants noted that 73 (88%) claimants may have been underpaid, totaling as much as \$81,383 over the term of their disability, including 17 (23%) claimants who each may have been underpaid by a total of \$1,000 or more for their 5- to 313-week terms. Also, WDCA was not able to recalculate the claim payment amounts for 7 (8%) other claimants because of missing key information.

Subsequent to the time of our request, WDCA followed up on the 17 claimants who each were potentially underpaid by a total of \$1,000 or more. WDCA indicated that its follow-up, through July 2019, noted that 16 claimants were not underpaid, based on additional information provided by the insurance carriers, and that a determination remained outstanding for 1 claimant.

WDCA indicated that claim payment amount discrepancies are historically the result of incomplete or inaccurate information provided by the insurance carriers; therefore, WDCA focused its limited resources on other priorities.

## **RECOMMENDATION**

We recommend that WDCA improve its process to review the accuracy of workers' compensation wage loss claim payment amounts.

**AGENCY  
PRELIMINARY  
RESPONSE**

WDCA provided us with the following response:

*We agree. Although incorrect payments are rare, WDCA will improve its review process of wage loss claim payment amounts by consistently providing timely follow up with the insurance carriers. Procedures requiring the documentation of all follow up efforts will be implemented. WDCA is in the process of replacing its 30-year old automated system. The new system will provide for electronic reporting which will enhance the accuracy of the reports received. The new system is expected to be completed in the 3rd quarter of 2020.*

*In addition to the new system enhancements, WDCA will:*

- 1. Establish a new work team and increase staff resources dedicated to improving the reporting timeliness of carriers. The goal is to resolve all delinquent filings within sixty-days of delinquency.*
- 2. Ensure the improvements identified during a previous Lean Process Improvement (LPI) are incorporated in the new automated system. Improvements encompass electronic reporting and the tracking of filings.*
- 3. Review the appropriateness of seeking the penalty as outlined in Sections 418.631(1) & (2) of the Michigan Compiled Laws.*

## ADMINISTRATION OF SELECT FUNDS

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### BACKGROUND

WDCA's Funds Administration Division administers special funds provided for in the Act, including:

- Second Injury Fund (SIF): Reimburses carriers for payments made to or on behalf of employees who incurred an employment-related injury or injury resulting in death and worked for more than one employer or were disabled for more than two continuous years.

Also, SIF may reimburse carriers or provide direct benefits to employees who were conclusively presumed to be totally and permanently disabled after a second work-related permanent disability.

- Silicosis, Dust Disease, and Logging Industry Compensation Fund (SDDLICF): Reimburses carriers for payments made to or on behalf of employees for work-related disability or death from silicosis or other dust disease, arising out of and in the course of employment in the logging industry, or caused by exposure to polybrominated biphenyl.

Under the direction of the Board of Trustees, and in accordance with Section 418.551 of the *Michigan Compiled Laws*, WDCA calculates and allocates the annual SIF and SDDLICF assessments to insurers who write workers' compensation policies in the State of Michigan and approved self-insurers. These assessments cover the benefit reimbursements paid from the respective funds and the related administrative costs. WDCA collected SIF and SDDLICF calendar year 2017 assessments totaling \$9.5 million and \$1.9 million, respectively.

WDCA verifies the eligibility of each SIF and SDDLICF claim, and its Funds Administration Information System (FAIS) calculates the payment amounts and interfaces with the State's accounting system for proper and timely payment to the carrier or employee.

### AUDIT OBJECTIVE

To assess the effectiveness of WDCA's administration of select funds.

### CONCLUSION

Effective.

### FACTORS IMPACTING CONCLUSION

- WDCA properly calculated the calendar year 2017 SIF and SDDLICF total assessment amounts, appropriately allocated the assessments to insurers and self-insurers, and ensured that the assessments were collected.

- WDCA accurately calculated the individual SIF and SDDLICF assessment amounts for the 10 carriers that we reviewed.
- WDCA verified that the 18 SIF and 6 SDDLICF reimbursement requests that we reviewed were eligible, properly calculated, documented, and processed in a timely manner.
- WDCA ensured that only current employees had access to FAIS and that the 5 users that we reviewed had appropriate access rights.

## DESCRIPTION

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Effective August 11, 2019, Executive Order No. 2019-13 transferred the Workers' Compensation Agency from the Department of Licensing and Regulatory Affairs to the Department of Labor and Economic Opportunity (formerly the Department of Talent and Economic Development) and renamed it as the Workers' Disability Compensation Agency.

Workers' disability compensation provides wage loss replacement, medical, and rehabilitation benefits to workers who suffer a work-related injury. The Act requires employers who are not excluded to purchase an insurance policy from a private insurance company or obtain authorization to operate as self-insured.

The mission\* of WDCA is to efficiently administer the Act and provide prompt, courteous, and impartial service to all customers.

WDCA had 62 employees as of December 31, 2017 and expended \$10.0 million for administration for fiscal year 2017.

\* See glossary at end of report for definition.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the records and processes related to WDCA's administration of the Act. We conducted this performance audit\* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

#### Scope Limitation

Generally accepted government auditing standards require us to report significant constraints imposed upon the audit approach. We encountered one issue applicable to Objective #1 that necessitates reporting.

To identify potential Michigan businesses that may not be covered for workers' compensation insurance, we requested employer records from UIA, Department of Labor and Economic Opportunity. We intended to match the active employers in UIA's database against the population of active employers in WDCA's WORCS. UIA declined our request for the data, which prevented us from determining the completeness of WDCA's employer population. We ultimately obtained the UIA data in October 2019, and we will report the results of our data match in a separately issued report.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered WDCA's operations from October 1, 2015 through December 31, 2017.

### METHODOLOGY

We conducted a preliminary survey to obtain an understanding of WDCA's operations and controls and to establish our audit objectives and methodology. During our preliminary survey, we:

- Reviewed the Act, WDCA general rules, applicable WDCA policies and procedures, and instructional materials on WDCA's Web site to identify compliance standards.
- Interviewed WDCA management and staff to obtain an overview of WDCA's processes including:
  - Monitoring employers' and carriers' compliance with the Act.

\* See glossary at end of report for definition.

- Approving and monitoring self-insurers and self-insurer groups and employers requesting exclusion from the Act.
- Reviewing, evaluating, and inputting claim form data.
- Maintaining forms and correspondence related to claims, disputed cases, and insurance records.
- Reviewing and processing applications for reimbursement from the Compensation Supplement Fund.
- Calculating and collecting SIF and SDDLICF assessments and reimbursing carriers for benefits paid to injured workers.
- Obtained an understanding and performed walk-throughs of claims and cases in WDCA's WORCS, records management system, and FAIS.
- Performed analyses of records in WORCS and records management system to determine the population of employers and injury claims filed.

## **OBJECTIVE #1**

To assess the effectiveness of WDCA's efforts to ensure employer compliance with selected requirements of the Act.

To accomplish this objective, we:

- Discussed with WDCA management its methods to ensure that all applicable employers are self-insured or obtain workers' compensation insurance coverage.
- Reviewed 15 of 386 individual and 3 of 31 self-insurer groups' 2017 annual applications to determine if WDCA completed the review checklist, approved the application, and obtained additional insurance, letters of credit, or bonds, as applicable.
- Reviewed the 12 disbursement requests submitted by 3 of 31 self-insurer groups from October 1, 2015 through December 31, 2017 to determine if WDCA properly approved, documented, and tracked surplus funds disbursement requests.
- Reviewed 15 of the 2,514 exclusion forms submitted from October 1, 2015 through December 31, 2017 for completeness, approval, and notarization.
- Reviewed 10 of approximately 100 denied exclusion forms maintained as of February 22, 2018 to determine whether WDCA monitored them to ensure that the employers subsequently obtained workers'

compensation coverage. Also, we searched WDCA's records to determine if the employers subsequently obtained coverage.

- Reviewed 25 of 15,071 employers whose coverage was canceled from October 1, 2015 through December 31, 2017 to determine if WDCA documented and tracked its actions taken to determine the appropriateness of the coverage cancellations.
- Reviewed the parameters of WDCA's lapse report to determine if the report was complete.
- Reviewed 20 of approximately 500 employer files with lapses in coverage, for which WDCA had not completed its investigation as of February 2, 2018, for timeliness and documentation.
- Traced 17 penalty assessments, identified in the 20 employer files above, to WDCA's penalty tracking spreadsheet to determine if the spreadsheet was complete.
- Reviewed WDCA's penalty tracking spreadsheet to determine the amount collected and outstanding for documented penalties from October 1, 2015 through December 31, 2017 and to determine collection efforts.

We randomly selected our samples to eliminate bias and to enable us to project the results into the respective populations.

## **OBJECTIVE #2**

To assess the effectiveness of WDCA's oversight of workers' compensation wage loss claims.

To accomplish this objective, we:

- Reviewed 17 of 59,709 report of injury forms submitted from October 1, 2015 through December 31, 2017 to determine if claimants were paid the proper amount of wage loss benefits. We randomly selected the forms to eliminate bias and to enable us to project the results into the respective populations.
- Reviewed 8 of 21,171 forms requesting a claim mediation or hearing and 5 of 59,709 report of injury forms received by WDCA from October 1, 2015 through December 31, 2017 to determine if disputed claims were processed in a timely manner. We randomly selected the 13 forms from each applicable population to eliminate bias and to enable us to project the results into the respective populations.
- Reviewed 5 of 21,171 forms requesting a claim mediation or hearing and 19 of 59,709 report of injury

forms received by WDCA from October 1, 2015 through December 31, 2017 to determine if claimants were paid wage loss benefits in a timely manner. We randomly selected our samples to eliminate bias and to enable us to project the results into the respective populations.

- Reviewed 195 potentially inaccurate claims (173 claimants) flagged as delinquent from October 1, 2015 through December 31, 2017, and outstanding as of February 28, 2018, for timeliness and documentation of follow-up.
- Reviewed supporting documentation for 20 Compensation Supplement Fund reimbursement requests for 8 carriers, of the 7,628 requests submitted from January 1, 2016 through December 31, 2017 to determine eligibility and payment accuracy. We judgmentally and randomly selected the carriers to ensure that we reviewed reimbursements with payments and tax credits. We randomly selected the 20 reimbursement requests to eliminate bias and to enable us to project the results into the respective population.
- Reviewed 89 users with access to WORCS as of April 12, 2018 to determine if the user was a current State employee.
- Reviewed 12 of 89 users with access to WORCS to ensure that access was read-only and reviewed a random sample of 9 of the remaining 77 users for appropriate access based on their job descriptions. We judgmentally selected the 12 users to verify that information provided by WDCA was accurate and randomly selected the 9 users to eliminate bias and to enable us to project the results into the population of 77 users.
- Reviewed the 14 users from 3 different agencies outside of WDCA who had WORCS read-only access to determine if WDCA has a current agreement with the agencies regarding confidentiality of data within WORCS.
- Reviewed 66 of 130 individuals with access to the WDCA section of the building in which the employees and files are contained to determine if the individuals were physically located in the building and had appropriate access. We reviewed 5 of the remaining 64 individuals with access that appeared to be of higher risk and randomly selected a sample of 26 of the remaining 59 individuals to determine if access was appropriate. We randomly selected the 26 individuals to eliminate bias and to enable us to project the results into the population of 59 individuals.

### **OBJECTIVE #3**

To assess the effectiveness of WDCA's administration of select funds.

To accomplish this objective, we:

- Reviewed the SIF and SDDLICF calendar year 2017 assessments to determine if they were calculated and allocated to all carriers in accordance with the law and supporting documentation was maintained.
- Reviewed 10 of the 995 indemnity forms submitted to WDCA for the calendar year 2017 SIF and SDDLICF assessment calculation to ensure:
  - The amount of workers' compensation benefits reported by the carrier was equal to the amount used in the assessment calculation.
  - The forms were certified as accurate.
  - WDCA calculated the assessment accurately.
  - The carriers paid the correct amount in a timely manner.

We randomly selected our sample to eliminate bias and to enable us to project the results into the population.

- Compared the amount of SIF and SDDLICF assessment revenue recorded in the State's accounting system with the total amount assessed for calendar year 2017 to determine if all assessments were collected and properly recorded.
- Reviewed 18 of the 1,374 SIF and 6 of the 284 SDDLICF reimbursement requests received from October 1, 2015 through December 31, 2017 to determine if reimbursements were eligible, accurate, timely, and sufficiently documented. We randomly selected our samples to eliminate bias and to enable us to project the results into the respective populations.
- Reviewed all 21 active FAIS users as of April 10, 2018 to ensure that the users were current employees, and reviewed 5 of the 21 active users to ensure that the roles assigned to them in FAIS were consistent with their job descriptions. We randomly selected our sample to eliminate bias and to enable us to project the results into the population.

### **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions\* or reportable conditions.

\* See glossary at end of report for definition.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

## **AGENCY RESPONSES**

Our audit report contains 2 findings and 2 corresponding recommendations. WDCA's preliminary response indicates that it agrees with both of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from WDCA's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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Act	Worker's Disability Compensation Act of 1969, being Sections 418.101 - 418.941 of the <i>Michigan Compiled Laws</i> .
carrier	A self-insurer or insurer.
claim	As used in this report, a form submitted by an insurance company or self-insured employer documenting wage loss payment information for a claimant because of a work-related injury.
claimant	A person making a claim.
effectiveness	Success in achieving mission and goals.
excess insurance	An insurance policy obtained to reimburse a self-insured employer for workers' compensation claims exceeding a designated dollar amount.
FAIS	Funds Administration Information System.
insurer	An organization that transacts the business of workers' compensation insurance within this state.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
SDDLICF	Silicosis, Dust Disease, and Logging Industry Compensation Fund.
self-insurer	An individual employer authorized to carry its own risk, or a group of employers who pool their liabilities as a self-insurer group.
SIF	Second Injury Fund.
UIA	Unemployment Insurance Agency.
WDCA	Workers' Disability Compensation Agency.
WORCS	Workers' Compensation System.





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