



GRETCHEN WHITMER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY  
LANSING

JEFF DONOFRIO  
DIRECTOR

July 9, 2020

Mr. Rick Lowe, Chief Internal Auditor  
Office of Internal Audit Services  
State Budget Office  
George W. Romney Building  
111 S. Capitol Avenue, 6<sup>th</sup> Floor  
Lansing, Michigan 48913

Dear Mr. Lowe:

In accordance with State of Michigan, Financial Management Guide, Part VII, please see the attached summary of findings and associated corrective action plans to address recommendations contained in the Office of the Auditor General's report on Workers' Disability Compensation Agency, Department of Labor and Economic Opportunity (Report No. 641-0470-18) covering the audit period October 1, 2015 through December 31, 2017.

Should you have any questions regarding the attached information, please contact me directly at (517) 231-1720 or at [WilliamsA6@michigan.gov](mailto:WilliamsA6@michigan.gov).

Respectfully,

Allen Williams  
LEO Chief Internal Control Officer

cc: See page two for Distribution List

Workers' Disability Compensation Agency  
Michigan Department of Labor & Economic Opportunity  
Audit Period: October 1, 2015 through December 31, 2017  
Distribution List

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Workers' Disability Compensation Agency  
Michigan Department of Labor & Economic Opportunity  
Summary of Agency Responses to Recommendations  
Audit Period: October 1, 2015 through December 31, 2017

- I. Audit recommendations the agency complied with:
  - 1a.
  - 2.
  
- II. Audit recommendations the agency agrees with and will comply:
  - 1b. – Estimated date of compliance is March 31, 2021.
  - 1c. – Estimated date of compliance is March 31, 2021.
  
- III. Audit recommendations the agency disagrees with:
  - None.*

Workers' Disability Compensation Agency  
Michigan Department of Labor & Economic Opportunity  
Audit Period: October 1, 2015 through December 31, 2017  
Final Response

**FINDING #1**

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 that 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.

**RECOMMENDATION**

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

**FINAL 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 November 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.***

We agree and have complied. WDCA has 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 met. In addition, it improved its documentation and tracking of follow up efforts regarding employer compliance enforcement.

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

We agree and will comply. WDCA is developing 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 continues 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. Estimated date of compliance is March 31, 2021.

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

We agree and will comply. The agency has evaluated parameter changes associated with the current reporting of coverage lapses. Pending implementation of the new system, the agency will continue to utilize a manual spreadsheet tracking process to improve the identification and follow up of employers with lapsed coverage. Upon implementation of the new system, the agency will upgrade procedures to reflect changes; and ensure timely follow-up, adequate documentation and proper disposition of all closed files. Estimated date of compliance is March 31, 2021.

**FINDING #2**

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.

**RECOMMENDATION**

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

**FINAL RESPONSE**

We agree and have complied. WDCA has improved its review process of wage loss claim payment amounts by consistently providing timely follow up with insurance carriers. Additional staff resources have been directed towards this effort and compliance has increased. The agency's most recent three-year report has a 100% carrier response rate and we anticipate proper filings will be received. WDCA will continue to remind carriers of statutory sanctions that could be levied for failure to respond timely and will document those outcomes accordingly. Procedures requiring the documentation of all follow up efforts have also been implemented.