

EXECUTIVE DIGEST

BUREAU OF WORKERS' DISABILITY COMPENSATION

INTRODUCTION

This report contains the results of our performance* and financial* audit of the Bureau of Workers' Disability Compensation, Department of Consumer and Industry Services. The financial portion of our audit covered the period October 1, 1998 through September 30, 2000.

AUDIT PURPOSE

This performance and financial 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*. Financial audits are conducted at various intervals to provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements. Also, this audit complements the departmentwide financial audit.

BACKGROUND

The Workers' Disability Compensation Act of 1969, 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. The Bureau of Workers' Disability Compensation's mission* is to administer the Act in order

to facilitate timely benefit payments to injured employees at a reasonable cost to employers.

In fiscal year 1999-2000, the Bureau expended approximately \$12.3 million for general operations. As of September 30, 2000, the Bureau had 147 classified and 1 unclassified full-time employees.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness and efficiency of the Bureau's administration of the Workers' Disability Compensation Act of 1969.

Conclusion: We concluded that the Bureau was generally effective and efficient in its administration of the Act. However, our assessment disclosed reportable conditions* in the areas of the continuous quality improvement* (CQI) process, insurance coverage, automated data collection, allocation of annual fund assessments, and the penalty process (Findings 1 through 5).

Noteworthy Accomplishments: The Bureau's web site was rated as one of the three best workers' disability compensation web sites in the nation, as reported in the March/April 2001 issue of the *Workers' Compensation Policy Review*. The web sites of all 50 states and the District of Columbia were rated on 15 criteria, such as the workers' compensation law, publications, and statistics and other important features, including the availability of forms and contact information. The Bureau's web site also provides users with helpful interactive features, including a benefit calculation program that enables users to calculate weekly workers' disability compensation payments payable on general disability claims and a search function to determine current insurance coverage information for

employers in Michigan. This recognition is consistent with the Governor's efforts to provide information to consumers on a 24-hour basis and to promote the use of web technology.

In 1999, the Bureau made available to all system participants a toll-free telephone number to address any questions and provide information relating to workers' disability compensation in the State. The Bureau has published the toll-free number in various pamphlets and mailings, in its annual reports, and on its web site.

Audit Objective: To assess and report on the Bureau's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control* over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to cash receipts and revenue processing and information systems security (Findings 6 and 7).

Audit Objective: To audit the financial statements of the Second Injury Fund; the Silicosis, Dust Disease, and Logging Industry Compensation Fund; the Self-Insurers' Security Fund; the Uninsured Employers' Security Fund; and the Workers' Disability Compensation - Multiple Trust Funds as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

Conclusion: We expressed an unqualified opinion* on the Bureau's financial statements.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Bureau of Workers' Disability Compensation. Also, our audit scope was to examine the financial records for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

Our methodology included examination of the Bureau's records and activities primarily for the period January 1, 1999 through May 31, 2001. We conducted a preliminary review of the Bureau's operations to formulate a basis for defining the audit objectives and scope.

We assessed whether the Bureau appropriately evaluated its program effectiveness and efficiency through the establishment of a continuous quality improvement process. We also assessed whether the Bureau had established effective methods to educate those involved in the workers' disability compensation process and whether the Bureau had established efficient methods to obtain required information from those parties.

We examined the Bureau's methods for ensuring that workers' disability compensation payments to injured employees were timely and accurate and in accordance with the Workers' Disability Compensation Act of 1969.

Also, we reviewed the maintenance of the Bureau's current and historical claims/case and employer records system.

We analyzed the effectiveness of the Bureau's procedures for ensuring that all eligible employers had complied with the requirements of the Act by maintaining the required workers' disability compensation insurance coverage. Also, we evaluated the Bureau's process for approving employers for self-insurance.

We reviewed the Bureau's handling of contested cases, through either the informal mediation process or through the formal hearings process, and its management of the related caseloads. Also, we evaluated whether the Bureau was effective and efficient in informing employers and employees of the Act's provisions regarding vocational rehabilitation.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 7 findings and 8 corresponding recommendations. The Bureau's preliminary response indicated that it agreed with 7 recommendations and agreed in part with 1 recommendation.

The Bureau complied with 5 of the 8 prior audit recommendations included within the scope of our current audit. Two of the prior audit recommendations were repeated and one was rewritten for inclusion in this report.