



# OAG

Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Workers' Compensation and Long Term Disability Programs for State of Michigan Employees*

### *Office of the State Employer, Department of Technology, Management, and Budget*

**Report Number:**  
**071-0141-14**

**Released:**  
**November 2015**

The Office of the State Employer (OSE) is responsible for managing and monitoring the workers' compensation and long term disability (LTD) benefit programs for State of Michigan employees. OSE has contracted the day-to-day management and claims processing for these programs to a third party administrator (TPA). Workers' compensation benefits include payments for loss of wages, medical care, vocational rehabilitation, scheduled awards for loss of body parts, and death benefits for surviving family members. LTD claimants are eligible for lost wage benefits equal to 66.67% of the employee's monthly earnings. For fiscal year 2014, the TPA invoiced OSE \$26.6 million in workers' compensation and \$36.6 million in LTD claims and fees.

Audit Objective			Conclusion
Objective #1: To assess OSE's efforts to monitor the TPA's processing and managing of workers' compensation and LTD claims for State of Michigan employees.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
For OSE to gain assurance that its TPA processed claims in accordance with contractual provisions, OSE should obtain a service organization controls type 2 (SOC 2) report. The SOC 2 report would evaluate the design and operating effectiveness of the TPA's controls relevant to processing workers' compensation and LTD claims (Finding #1).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess OSE's efforts to ensure that calculated workers' compensation and LTD benefits accurately reflect income earned from other sources.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
OSE did not obtain wage data from the Unemployment Insurance Agency to determine if employees receiving loss of wage benefits had unreported income from other Michigan employers or collected unemployment benefits. Income from other sources could impact the amount of lost wage benefits paid to an employee. For fiscal year 2014, the TPA invoiced OSE \$46.7 million for lost wages (Finding #2).		X	Agrees

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