

EXECUTIVE DIGEST

**BUREAU OF WORKERS' DISABILITY COMPENSATION AND FUNDS
ADMINISTRATION**

INTRODUCTION

This report contains the results of our combined performance and financial audit of the Bureau of Workers' Disability Compensation and Funds Administration, Department of Labor. The performance portion of our audit covered the period October 1, 1991 through November 30, 1994 and the financial portion covered the period October 1, 1992 through September 30, 1994.

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 permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND

Entities within the Department of Labor administer Sections 418.101 - 418.941 of the *Michigan Compiled Laws* (the Worker's Disability Compensation Act of 1969, as amended).

The Bureau of Workers' Disability Compensation administers the workers' disability compensation laws of the State. The director of the Bureau is appointed by the Governor, with the advice and consent of the Senate, and serves for a three-year term.

Funds Administration administers the Second Injury Fund; the Silicosis, Dust Disease, and Logging Industry Compensation Fund; the Self-Insurers' Security Fund; and the Workers' Disability Compensation - Multiple Trust Funds. The funds are managed by a Board of Trustees composed of the director of the Bureau, an insurance industry representative, and a self-insured employer representative appointed by the Governor, with the advice and consent of the Senate, for a four-year term.

The Board of Magistrates is an autonomous entity consisting of 30 members appointed by the Governor, with the advice and consent of the Senate, for four-year terms. The Board is responsible for hearing contested workers' compensation cases.

The Appellate Commission is an autonomous entity consisting of seven commissioners appointed by the Governor. The Commission decides cases if one party, because of dissatisfaction, appeals decisions of hearing referees, magistrates, or the director of the Bureau.

In fiscal year 1993-94, the preceding entities expended approximately \$16.8 million for general operations. As of

September 30, 1994, these entities had 174 classified and 36 unclassified full-time employees.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of the Bureau's and Funds Administration's management practices and procedures.

Conclusion: We concluded that management practices and procedures were reasonably effective and efficient. However, effectiveness and efficiency could be enhanced regarding workers' disability compensation insurance coverage (Finding 1), automated data collection (Finding 2), the Board of Magistrates and the Appellate Commission (Finding 3), the amounts paid for benefits (Finding 4), and vocational rehabilitation (Finding 5).

Audit Objective: To assess the adequacy of the Bureau's and Funds Administration's internal control structures.

Conclusion: Our assessment of the internal control structures did not disclose any material weaknesses. However, we noted a reportable condition related to the "excess insurance" revenues of the Self-Insurers' Security Fund (Finding 6).

Audit Objective: To assess the Bureau's and Funds Administration's compliance with applicable laws and regulations.

Conclusion: Our assessment of the Bureau's and Funds Administration's compliance with laws and regulations did

not disclose any instances of noncompliance that could have a material effect on the financial statements.

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; and the Workers' Disability Compensation - Multiple Trust Funds for the fiscal years ended September 30, 1994 and September 30, 1993.

Conclusion: We expressed an unqualified opinion on the financial statements for the fiscal year ended September 30, 1994. We expressed a qualified opinion on the financial statements for the fiscal year ended September 30, 1993. Funds Administration improperly recorded expenditures and revenue during fiscal year 1992-93 in the Second Injury Fund and in the Silicosis, Dust Disease, and Logging Industry Compensation Fund by writing off valid accounts payable. Also, Funds Administration overestimated the amount of accounts payable in those funds at September 30, 1993 (Finding 7).

**AUDIT SCOPE
AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Bureau of Workers' Disability Compensation and Funds Administration for the period October 1, 1991 through November 30, 1994 and to examine the financial records for the period October 1, 1992 through September 30, 1994. 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.

Our audit methodology included reviewing the Bureau's process for responding to injured worker complaints and the procedures for screening and referring injured workers for rehabilitation. We also reviewed the Bureau's process for monitoring health care services provided for injured workers.

In addition, we reviewed the Bureau's systems for recording information reported by insurance carriers and employers and for tracking contested cases.

We reviewed the Bureau's process for ensuring that employers maintained required workers' compensation coverage. We also reviewed the mediation, hearings, and appeals processes and case load data related to resolution of disputed workers' compensation cases.

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

This report contains 7 findings and 8 recommendations. The Bureau and Funds Administration agreed with all 7 findings and informed us that 1 recommendation has been implemented.

The Bureau and Funds Administration complied with 8 of the 9 prior audit recommendations included within the scope of our current audit.