

STATE OF CONNECTICUT

**AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 and 2001**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

Table of Contents

INTRODUCTION.....	1
COMMENTS.....	1
FOREWORD	1
Workers' Compensation Commissioners	1
Organization Structure	2
RÉSUMÉ OF OPERATIONS	4
Funding and Assessments	4
Special Revenue and General Fund Receipts	4
Special Revenue and General Fund Expenditures.....	4
PROGRAM EVALUATION.....	5
CONDITION OF RECORDS.....	6
Payroll and Personnel	6
Inventory	7
Use of State Owned Vehicle	8
RECOMMENDATIONS.....	10
INDEPENDENT AUDITORS' CERTIFICATION.....	12
CONCLUSION	14

June 17, 2002

**AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 and 2001**

We have made an examination of the financial records of the Workers' Compensation Commission for the fiscal years ended June 30, 2000 and 2001. Financial statement presentation and auditing are done on a Statewide Single Audit basis to include all State agencies, including the Workers' Compensation Commission. This examination has been limited to assessing the Workers' Compensation Commission's compliance with certain provisions of financial related laws, regulations, contracts, and grants, and evaluating the Commission's internal control policies and procedures established to ensure such compliance. This report on our examination consists of the Comments, Recommendations and Certification which follow.

COMMENTS

FOREWORD:

The Workers' Compensation Commission operates, generally, under the provisions contained in Title 31, Chapter 568, of the General Statutes. The Commission is responsible for administering the workers' compensation laws of the State of Connecticut with the ultimate goal of ensuring that workers injured on the job receive prompt payment of lost work time benefits and attendant medical expenses.

Workers' Compensation Commissioners:

Section 31-276 of the General Statutes establishes a Workers' Compensation Commission. The Commission consists of 16 Workers' Compensation Commissioners including one who serves as chairman. Commissioners are nominated by the Governor and appointed by the General Assembly for five-year terms. The Governor selects one of the 16 commissioners to serve as chairman of the Commission at the Governor's pleasure. The chairman shall have previously served as a Workers' Compensation Commissioner in Connecticut for at least one year.

Auditors of Public Accounts

The Workers' Compensation Commissioners, as of June 30, 2001, were as follows:

Howard Belkin
Nancy A. Brouillet
Stephen B. Delaney
Donald H. Doyle, Jr.
Jesse M. Frankl
Ralph E. Marcarelli
John A. Mastropietro, Chairman
James J. Metro
Michael S. Miles
Leonard S. Paoletta
Amado J. Vargas
Ernie R. Walker
George A. Waldron
Robin W. Waller
A. Thomas White, Jr.
Robin L. Wilson

Jesse M. Frankl served as Chairman until October 14, 1999. John A. Mastropietro was appointed as Chairman effective October 18, 1999, and currently continues to serve in that position.

In addition to the above members, Angelo L. dos Santos also served as a Commissioner for part of the audited period.

Organization Structure:

The Chairman of the Commission has responsibility for administering the workers' compensation system. The Chairman is responsible for adopting policies, rules and procedures deemed to be necessary to carry out the workers' compensation law. An Advisory Board, established under the provisions of Section 31-280a, advises the Chairman on matters concerning policy for, and the operation of, the Commission. The Commission employed 160 full-time and 12 part-time or temporary employees as of June 30, 2001.

District Offices:

The Chairman designates workers' compensation districts throughout the State and assigns compensation commissioners to districts according to claim volume. Commissioners are responsible for holding hearings, mediating and arbitrating disputes and enforcing agreements and awards. Administrative functions of the districts are performed by professional staff assigned to those districts. There are eight districts in addition to the chairman's office.

Compensation Review Board:

The Compensation Review Board within the Commission is authorized by Section 31-280b of the General Statutes. The Review Board is responsible for reviewing appeals of decisions made by compensation commissioners pursuant to Chapter 568 of the General Statutes. The

Review Board is made up of the Chairman of the Commission, who serves as chief of the Review Board, and two compensation commissioners selected by the Chairman to serve a term of one-year.

Rehabilitation Services:

The Workers' Rehabilitation Services program is authorized by Section 31-283a of the General Statutes. The Workers' Rehabilitation Unit provides rehabilitation programs for employees suffering compensable injuries which disabled them from performing their customary or most recent work.

Statistical Division:

The Statistical Division within the Commission is authorized by Section 31-283f of the General Statutes. The Division is responsible for compiling and maintaining statistics concerning occupational injuries and diseases, voluntary agreements, status of claims and commissioners' dockets.

Education / Health and Safety Service:

Section 31-283g of the General Statutes authorizes the Commission to provide educational services to employees concerning the prevention of occupational diseases and injuries, training for other than management employees in workers' compensation procedures and substantive rights, information to employees concerning known and suspected workplace hazards, and training and information for medical professionals in workers' compensation procedures, standards and requirements.

Section 31-40v of the General Statutes requires employers having 25 or more employees in the State and employers whose rate of work related injury or illness exceed the average incident rate of all industries in the State to administer a safety and health committee in accordance with regulations adopted by the Chairman of the Commission.

Fraud Unit:

A Workers' Compensation Fraud Unit within the Chief State's Attorney's Office in the Division of Criminal Justice is authorized by Section 31-290d of the General Statutes. The Unit, under the supervision of the Chief State's Attorney may, upon receipt of a complaint, at the request of the Chairman of the Commission or on its own initiative, investigate cases of alleged fraud involving any claim for benefits, any receipt or payment of benefits, or the insurance or self-insurance of liability under Sections 31-275 to 31-355a of the General Statutes. Upon conclusion of the investigation, the Chief State's Attorney shall take appropriate action to enforce the laws of the State. The cost of the Workers' Compensation Fraud Unit is appropriated by the General Assembly as an expense of the Commission and is paid from the Workers' Compensation Administration Fund.

RÉSUMÉ OF OPERATIONS:

Funding and Assessments:

As authorized under the Workers' Compensation Act of the General Statutes, the administrative expenses of the Commission are financed by annual assessments against companies writing workers' compensation insurance and against self-insured employers. Under the provisions of Section 31-345 of the General Statutes, the State Treasurer is required to assess and collect from insurance carriers and self-insurers amounts to reimburse the State for annual expenses incurred by the Commission in administrating the Workers' Compensation Act. Such assessments and expenses cannot exceed budget estimates of all direct and indirect costs of the Commission for the succeeding fiscal year commencing on July 1 next as determined by the Chairman of the Commission in accordance with subsection (c) of Section 31-280 of the General Statutes. For each fiscal year such assessment shall be reduced pro rata by the amount of any surplus from the assessments of prior fiscal years. The surplus is defined by this act as the amount, which exceeds 50 percent of the Commission's expenditures for the most recently completed fiscal year. All assessments collected by the State Treasurer are required to be deposited in the Workers' Compensation Administration Fund.

Special Revenue and General Fund Receipts:

General Fund receipts consisted of grants that totaled \$90,238 and \$93,183 for the fiscal years ended June 30, 2000 and 2001, respectively.

Workers' Compensation Administration Fund receipts totaled \$22,174,076 and \$19,761,469 for the fiscal years ended June 30, 2000 and 2001, respectively, and included assessments of \$22,080,566 and \$19,701,007, respectively, collected by the State Treasurer. As noted earlier in this report, assessments and collections are the responsibilities of the State Treasurer and, as such, are subject to examination and comment as part of our audit of the State Treasurer. Receipts collected by the Commission and credited to the Workers' Compensation Administration Fund amounted to \$93,510 and \$60,462 for the fiscal years ended June 30, 2000, and 2001, respectively. Receipts were primarily in the categories of photostating and copying fees and refunds of prior year expenditures.

The Workers' Compensation Administration Fund's fund balance, which reflects an annual excess of assessments over expenditures, totaled \$13,380,451 and \$13,389,244 as of June 30, 2000 and 2001, respectively.

Special Revenue and General Fund Expenditures:

A summary of expenditures during the audited period is presented below:

	<u>1999-2000</u>	<u>2000-2001</u>
Personal services	\$ 8,554,383	8,771,158
Contractual services	2,767,201	2,767,157
Commodities	131,717	152,675
Sundry Charges:		
Training Costs, Non-Employee	3,106,129	4,146,259

Employee Fringe Benefit Costs	3,173,484	3,112,634
Other Sundry Charges	1,022,113	1,178,081
Equipment and Leasehold Improvements	<u>152,439</u>	<u>100,908</u>
Total Expenditures	<u>\$18,907,466</u>	<u>\$20,228,872</u>

Expenditures charged to the Workers' Compensation Administration Fund amounted to \$18,817,228 and \$20,133,469 during the fiscal years ended June 30, 2000 and 2001, respectively. General Fund expenditures during the same period totaled \$90,238 and \$95,403. Total expenditures decreased by \$160,671 during fiscal year 1999-2000 and increased by \$1,321,406 during fiscal year 2000-2001. The increase in fiscal year 2000-2001 expenditures was mainly the result of increased tuition costs of the Workers' Rehabilitation Services program.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. These performance reviews are conducted in order to determine effectiveness and efficiency in achieving expressed legislative purposes. Our review involved the operations of the Compensation Review Board within the Workers' Compensation Commission.

The Compensation Review Board within the Workers' Compensation Commission is authorized by Section 31-280b of the General Statutes. Its purpose is to review appeal decisions made by the Compensation Commissioners. The Chairman of the Workers' Compensation Commission serves as the Chief and is responsible for the operations of the Board. Annually the Chief selects two other Compensation Commissioners to sit on the Board for a term of one year. No Commissioner may sit in review of his/her own award or decision. The Chief may select a third Compensation Commissioner to sit on the Board if one of the members is disqualified or temporarily incapacitated from hearing the matter under review.

Section 31-299b of the General Statutes requires that appeals be made within ten days after the entry of an award, a decision upon a motion or after an order by the Commissioner. Effective October 1, 2001, the filing deadline for appeals is revised to 20 days per Public Act 01-22. The Trial Commissioner that receives the appeal is required to mail the petition and three copies to the Chief of the Compensation Review Board and a copy to the adverse party or parties. The Review Board will hear an appeal if it is shown to the satisfaction of the Board that additional evidence or testimony is material and that there were good reasons for the failure to present it in the proceedings of the Trial Commissioner. The Review Board must render its decision upon final determination, but no later than one year after the appeal petition.

This performance evaluation reviewed the appeal process of the Review Board to determine whether or not it met the conditions of the General Statutes. This was done through interviews, examination of various reports furnished by the Commission and by reviewing the procedures established by the Workers' Compensation Commission to process appeals.

The results of our performance evaluation indicate that the Compensation Review Board is adhering to its statutory intent.

CONDITION OF RECORDS

Our examination revealed several areas requiring further attention, as discussed below.

Payroll and Personnel:

Criteria: Timesheets should be signed by each employee and a supervisor to evidence the hours of work and leave time used for each pay period.

For each pay period a timesheet is printed off the computer for each employee. The employee is supposed to fill in the hours worked and the hours of leave time used for each day within the pay period. The employee's supervisor is then supposed to sign the timesheet and submit it for payroll processing.

Condition: In our review of 50 timesheets, we found that five employee timesheets were either prepared or altered by someone other than the employee. Four of these timesheets were altered to reflect leave taken. The fifth was prepared for an employee out on sick leave. The employees did not initial the timesheets to evidence that they had approved the final timesheets.

For one employee in our sample, we were informed that the employee signed on her own timesheet both her own name and her supervisor's name. That supervisor confirmed to us that he had instructed that employee to sign his name in his absence. He also confirmed that he had reviewed and approved the timesheet in our sample. However, there was no evidence at the Agency's central office to indicate that.

Effect: It is possible that time worked and leave used may be recorded incorrectly. This could result in an error in a payment or an improper charge of leave time.

Cause: The Agency's policy is that a timesheet must be submitted to the central office at the end of a pay period. When an employee or supervisor is out on leave on the last day of the pay period, another employee signs the timesheets.

If an employee made an error on a timesheet, the timesheet form would be altered. However, the employee does not initial these alterations

Recommendation: The Department should establish procedures to ensure that any timesheets that are not prepared by an employee, due to absence at the time of original submission, are either resubmitted under the employee's signature or initialed by the employee at the time the employee returns to work. Also the Department should require that the employee initial any changes made to the employee's timesheet. (See Recommendation 1.)

Agency's Response: "The agency agrees with the auditors' findings. The Workers' Compensation Commission will institute modified timesheet procedures to ensure that any necessary changes are made in a timely manner and verified by the employee as soon as possible following his/her return to work."

Inventory:

Our review of inventory equipment revealed the following:

Criteria: Section 4-36 of the Connecticut General Statutes requires agencies to maintain inventory accounts prescribed by the Comptroller and report annually to the Comptroller the agency's inventory balances.

The State of Connecticut's Property Control Manual requires supporting subsidiary equipment records and the annual filing of the CO-59, *Fixed Assets/Property Inventory Report/GAAP Reporting Form*, with the Office of the State Comptroller. This report should summarize additions to and deletions from the agency's inventory of personal property. These additions should be reconcilable to the expenditures that the agency made for the purchase of equipment.

Condition: Equipment expenditures made by the Commission could not be reconciled to additions reported on the CO-59. We also noted during our review that enhancements to computer equipment were not being added to the cost of the equipment on the inventory list nor being added as additions on the CO-59.

Effect: The above conditions have the effect of weakening controls over equipment. The CO-59s, *Fixed Assets/Property Inventory Report/GAAP Reporting Forms* submitted to the Comptroller were inaccurate.

Cause: The Commission failed to follow procedures established by the State Comptroller.

Recommendation: The Commission should take steps to improve controls and reporting over its equipment inventory, and the equipment inventory should be kept in a manner consistent with the requirements of the State of Connecticut's Property Control Manual. (See Recommendation 2.)

Agency's Response: "The agency agrees with the auditors' findings regarding inventory control. Procedures to ensure compliance with the State Property Control Manual are being implemented. The agency will add the procedure to periodically reconcile the 005 expenditures to the current inventory additions on the CO-59, *Fixed Assets/Property Inventory Report/GAAP Reporting Forms*."

Use of State Owned Vehicle:

Criteria: The Department of Administrative Services (DAS) General Letter Number 115 provides that agency heads may request that a State vehicle be parked at an employee's home if certain conditions are met.

The DAS Home-to-Office Travel Policies and Procedures for Appointed Officials provides that home-to-office use of State vehicles is permitted for appointed officials and that appointed officials shall make monthly payments to DAS for home-to-office use. There is no provision for a non-appointed employee to reimburse DAS.

In order for the State to report the value of an employee's personal use of a State-owned vehicle to the Internal Revenue Service, the Office of the State Comptroller requires that the Commission calculate annually the taxable benefit of the non-business use of State-provided vehicles.

Condition: One employee was permanently assigned a State vehicle since November 1993 and parked that vehicle at his home at night. There is nothing in DAS General Letter Number 115 that allows this employee to park the vehicle at home. However, in 1993 the Commission sent a letter to DAS requesting approval for that employee to park the State vehicle at home. We were informed that the Commission had no response from DAS other than the fact that DAS began billing that employee monthly for home-to-office use of the State vehicle.

We noted during our review that the Commission did not perform the required calculation of the taxable benefit of the non-business use of State-provided vehicles for those employees that were provided State vehicles.

The employee returned his assigned State vehicle to DAS in May 2001 and no longer has a State vehicle permanently assigned to him, and, the Commission has performed calculations of the taxable benefits of the use of a State vehicle for November 1999 through October 2001.

Effect: A State vehicle was used for home-to-office travel when State policies did not allow such use. The taxable benefit of such use was not calculated and reported to the IRS.

Cause: It appears that when the State vehicle was originally assigned to the employee in 1993, the employee's assigned duties met the requirements in DAS General Letter Number 115 for parking the vehicle at the employee's home. However, the employee did not return the State vehicle when his duties no longer met those requirements.

We were informed that a misunderstanding of State requirements caused the failure to report the taxable benefit of the use of the State vehicle.

Conclusion: Since the Agency has already taken steps to correct the above condition, our audit report does not contain a recommendation.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Six recommendations were presented in our prior report. We found that during this audit period, there was compliance with five of the recommendations. One recommendation is repeated in this report. The following is a summary of the prior recommendations and the action taken by the Commission.

- The Commission should issue the report of the data collected on occupational illnesses and injuries at least on an annual basis in accordance with Section 31-399 of the General Statutes. Also, the Commission should establish a format that should be used to report the data collected on occupational disease, and the Memorandum of Agreement with the UConn Health Center should include the established format and should indicate when the report is due. This recommendation had been implemented.
- The Commission should only initiate payment for services that have been provided. We did not note any payments made for services that were not provided. This recommendation has been implemented.
- Contracted services should be obtained in accordance with statutory provisions. In particular, personal service agreements should be approved prior to the start of the contract period. During the audited period the Department changed its procedures for obtaining rehabilitation services and it is no longer contracting through personal service agreements. This recommendation is not being repeated.
- The Department should code receipts to the proper Revenue Object Code in accordance with the State Accounting Manual. This recommendation has been implemented.
- The Commission should recover a longevity overpayment. It should also review all critical entries that were initially entered into the BOSS/Payroll Interface to verify that the Commission employees' total State service is correct. This recommendation has been implemented.
- The Commission should take steps to improve controls and reporting over its equipment inventory, and the equipment inventory should be kept in a manner consistent with the requirements of the State of Connecticut's Property Control Manual. We found during our audit that this situation remains and the recommendation is repeated.

Current Audit Recommendations:

- 1. The Department should establish procedures to ensure that any timesheets that are not prepared by an employee due to absence at the time of original submission are either resubmitted under the employee's signature or the original timesheet should be initialed by the employee at the time the employee returns to work. Also the Department should require that the employee initials any changes made to an employee's timesheet.**

Comment:

We noted during our review that employees' timesheets that were prepared by other than the employee were not signed off on by the employee upon his/her return to work. We also noted that changes to timesheets were not being initiated by employees.

- 2. The Commission should take steps to improve controls and reporting over its equipment inventory, and the equipment inventory should be kept in a manner consistent with the requirements of the State of Connecticut's Property Control Manual.**

Comment:

Our review noted that equipment expenditures made by the Commission could not be reconciled to additions reported on the CO-59 and that computer enhancements were not being correctly recorded on the inventory list or included as additions to the CO-59.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Workers' Compensation Commission for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Workers' Compensation Commission for the fiscal years ended June 30, 2000 and 2001 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Workers' Compensation Commission complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Workers' Compensation Commission is the responsibility of the Workers' Compensation Commission's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000 and 2001 we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Workers' Compensation Commission is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the

Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Workers' Compensation Commission's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: there were weak accounting and/or administrative controls over the Department's property and equipment records, and attendance records.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that neither of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Workers' Compensation Commission during the course of this examination.

Patricia Wilson
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts