

STATE OF CONNECTICUT



*AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2017*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

Table Of Contents

EXECUTIVE SUMMARY	i
INTRODUCTION	1
COMMENTS	2
FOREWORD	2
Workers' Compensation Commissioners	2
Organization Structure.....	3
Programs and Services	3
New Legislation.....	4
RÉSUMÉ OF OPERATIONS	4
Workers' Compensation Administration Fund	4
Revenue and Receipts	4
Expenditures	5
Fund Balance	6
Federal and Other Restricted Accounts Fund.....	6
STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....	7
Software Inventory:	7
Administrative Purpose Only Relationship with the Department of Labor:	7
RECOMMENDATIONS	9
ACKNOWLEDGEMENT	10
CONCLUSION.....	11

April 10, 2019

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes we have audited certain operations of the Workers' Compensation Commission. The objectives of this review were to evaluate the department's internal controls, compliance with policies and procedures, as well as certain legal provisions, and management practices and operations for the fiscal years ended June 30, 2016 and 2017.

The key findings are presented below:

Finding 1 Page 7	The software inventory that the Workers' Compensation Commission reported on the CO-59 report did not agree with the software inventory maintained by the information technology division. The Workers' Compensation Commission should maintain an accurate and up to date software inventory report that can be used as support for the annual CO-59 Report.
Finding 2 Page 7	The Workers' Compensation Commission has never operated within the Department of Labor, for administrative purposes as defined in Section 4-38f of the General Statutes enacted in 1977. The Workers' Compensation Commission should consider seeking a legislative change to the Workers' Compensation Act to reflect current practices.

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT J. KANE

April 10, 2019

INTRODUCTION

AUDITORS' REPORT WORKERS' COMPENSATION COMMISSION FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2017

We have audited certain operations of the Workers' Compensation Commission (WCC) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2016 and 2017. The objectives of our audit were to:

1. Evaluate the commission's internal controls over significant management and financial functions;
2. Evaluate the commission's compliance with policies and procedures internal to the department or those promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the commission, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the commission's management and was not subjected to the procedures applied to our audit of the commission.

For the areas audited, we identified (1) deficiencies in internal controls; (2) apparent noncompliance with legal provisions; and (3) no need for improvement in management practices and procedures that we deemed to be reportable. The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Workers' Compensation Commission.

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 established the Workers' Compensation Commission. The commission consists of 16 workers' compensation commissioners, including 1 who serves as chairman. Commissioners are nominated by the Governor and appointed by the General Assembly for five-year terms. The Governor selects 1 of the 16 commissioners to serve as chairman of the commission, who then serves at the pleasure of the Governor. The commissioners, as of June 30, 2017 were as follows:

John A. Mastropietro, Chairman
Scott A. Barton
Randy L. Cohen
Robert A. D'Andrea
Daniel E. Dilzer
Christine L. Engel
Jodi Murray Gregg
Brenda D. Jannotta

Peter C. Mlynarczyk
Stephen Morelli
Thomas J. Mullins
Nancy E. Salerno
David W. Schoolcraft
Charles F. Senich
Michelle D. Truglia
Ernie R. Walker

John A. Mastropietro was appointed as chairman October 18, 1999, and served in that capacity throughout the audited period. He retired effective May 1, 2018 and was replaced as chairman by Stephen Morelli. Jack R. Goldberg and Stephen B. Delaney also served as commissioners during the audited period.

Organization Structure

The chairman is responsible for administering the workers' compensation system and adopting the policies, rules and procedures necessary to implement workers' compensation laws in Connecticut. An advisory board, established under the provisions of Section 31-280a, advises the chairman on matters concerning policy for, and operation of, the commission. The advisory board consists of 8 members who are appointed by the Governor with the advice and consent of the General Assembly. The advisory board elects a 9th member to be the chairman. The board also interviews commissioners being considered for reappointment and makes formal recommendations to the Governor.

The chairman of the commission also designates workers' compensation districts throughout the state and assigns compensation commissioners to those 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.

The Compensation Review Board (CRB) within the commission is authorized by Section 31-280b of the General Statutes. The CRB is responsible for reviewing appeals of decisions made by commissioners. The CRB consists of the chairman of the commission, who serves as chief of the CRB, and two compensation commissioners selected by the chairman who serve one-year terms.

Programs and Services

In addition to its quasi-judicial duties, the commission provides programs and services related to education, safety and health, statistics, licensing, and the investigation of fraud.

Education Services provides information about the workers' compensation system through a website, a toll-free information service, publications, educational conferences and seminars.

Safety and Health Services assists employers with the implementation of the workers' compensation regulations and the establishment and administration of safety and health committees at work sites.

The Statistical Division measures and monitors the commission's caseload and performance, and researches insurance coverage and injury and claims data.

Licensing grants the right to operate an approved medical care plan (sometimes called a preferred provider organization or PPO) to qualified employers in the state to provide medical treatment for employee work-related injuries and illnesses. It also reviews and approves

applications for self-insurance plans in which employers self-insure their workers' compensation liabilities, rather than through purchasing coverage from commercial insurance carriers.

The Fraud Unit, within the Office of the Chief State's Attorney, investigates complaints of workers' compensation fraud. The cost of the unit is borne by the Workers' Compensation Commission. The Workers' Compensation Administration Fund also provides all funding to support services provided to injured workers by the State Department of Rehabilitation Services.

The Department of Labor, under its Occupational Health Clinics appropriation, provides a grant to the commission to operate its Occupational Disease Surveillance System in accordance with Sections 31-396 to 31-403 of the General Statutes.

New Legislation

There was no new significant legislation during the audited period.

RÉSUMÉ OF OPERATIONS

Workers' Compensation Administration Fund

The administrative expenses of the Workers' Compensation Commission are primarily financed by annual assessments made against companies writing workers' compensation insurance and self-insured employers in Connecticut. Section 31-344a of the General Statutes established the Workers' Compensation Administration Fund. The fund was established to separately account for the funding and costs of administering the Workers' Compensation Act.

The chairman annually determines a budget for the operating costs of the commission. The budget is finalized through the state's budget process. The commission can only spend amounts in the fund in accordance with appropriations approved by the General Assembly. The chairman, in consultation with the Office of the State Comptroller, determines the assessment needed to fund the commission's operating costs. Section 31-345 of the General Statutes directs the State Treasurer to assess and collect amounts sufficient to meet such costs from insurers and self-insured employers. The collections are deposited in the Workers' Compensation Administration Fund.

Excess funds may remain at the close of each fiscal year as the result of budget surpluses that accrue to the fund. Up to one-half of the prior year's expenses can remain in the fund and any balance above that is returned to insurers and employers via a reduced assessment in the following fiscal year.

Revenue and Receipts

Revenues for the Workers' Compensation Commission for the fiscal years ended June 30, 2015, 2016 and 2017, are summarized below by fund:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Workers' Compensation	\$ 23,778,363	\$ 25,168,214	\$ 24,126,835
Federal and Other Restricted Accounts Fund	102,547	102,963	103,072
Total Revenues Listed by Fund	\$ 23,880,910	\$ 25,271,177	\$ 24,229,907

Revenues for the Workers' Compensation Commission by revenue account are presented below:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Receipts from Assessments	\$ 23,709,314	\$ 25,054,344	\$ 23,898,154
Restricted State Aid	102,547	102,963	103,072
Investment Interest	44,191	94,917	212,062
Other	24,858	18,953	16,618
Total Revenues Listed by Account	\$ 23,880,910	\$ 25,271,177	\$ 24,229,907

Revenue has been relatively consistent from year to year since it is primarily generated from assessments. The commission earns interest on its fund balance from the State Treasurer's interest credit program. The interest rate has been increasing in the last few years which has led to a rise in interest income.

Expenditures

Expenditures by fund for the Workers' Compensation Commission for the fiscal years ended June 30, 2015, 2016, and 2017, are summarized below:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Workers' Compensation	\$ 18,900,501	\$ 19,910,312	\$ 18,440,458
Federal and Other Restricted Accounts Fund	102,547	102,963	103,072
Total Expenditures Listed by Fund	\$ 19,003,048	\$ 20,013,275	\$ 18,543,530

Expenditures by account for the Workers' Compensation Commission for the fiscal years ended June 30, 2015, 2016, and 2017, are summarized below:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Personal Services & Employee Benefits	\$ 16,380,939	\$ 16,644,278	\$ 15,868,063
Premises and Property Expenses	1,664,913	1,544,962	1,582,284
Purchased & Contracted Services	282,226	367,980	349,100
Indirect Overhead and Reimbursements	244,904	420,049	398,322
Information Technology	140,951	913,508	203,334
Capital Outlay	125,609	-	-
Other Expenditures	163,506	122,498	142,427
Total Expenditures Listed by Account	\$ 19,003,048	\$ 20,013,275	\$ 18,543,530

Total expenditures increased by 5.3% during the fiscal year ending June 30, 2016, but decreased by 7.3% in the fiscal year ended June 30, 2017. The increase during the fiscal year ended

June 30, 2016 was primarily due to the design of a new case management database. The decrease in expenditures during the fiscal year ended June 30, 2017 was driven by the retirement of employees lowering the total position count from 107 at June 30, 2016 to 102 at June 30, 2017.

Fund Balance

The fund balance of the Workers' Compensation Administration Fund totaled \$14,259,732 and \$17,449,301 as of June 30, 2016 and 2017, respectively. The increase in the fund balance of \$3,189,569 during the fiscal year ended June 30, 2017 was attributable to the carryforward of funds for a new computer system which was still in process. Personnel expenses were also less than budgeted due to retirements.

Federal and Other Restricted Accounts Fund

Federal and Other Restricted Accounts Fund receipts totaled \$102,963 and \$103,072 for the fiscal years ended June 30, 2016 and 2017, respectively. The amounts were received from the Department of Labor in the form of an Occupational Health Clinics grant. The resources are used to pay personal service costs in the current year through a memorandum of agreement. The commission used these funds to operate its Occupational Disease Surveillance program in accordance with Sections 31-396 to 31-403 of the General Statutes. The commission receives and coordinates data from occupational health clinics, auxiliary occupational health clinics, and other databases and medical sources concerning occupational illnesses and injuries at various sites, related to various occupations. The commission uses this data to educate unions, employers, and individual workers on the use of the surveillance system. The commission expended the total amount of the grants received in each of the fiscal years.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our audit identified the following reportable conditions.

Software Inventory:

- Criteria:* Chapter 7 of the State Property Control Manual requires that every state agency produce a software inventory report on an annual basis. These reports are to be available to the Auditors of Public Accounts. Agencies should include software meeting the capitalization threshold on the annual CO-59 property control report to the State Comptroller.
- Condition:* The software inventory records maintained by the Workers' Compensation Commission business office, and provided in support for the CO-59 report, did not match the software reported by the information technology (IT) division. The CO-59 contained capitalized software that was not included on the IT division's inventory and the IT division included capitalized software that was missing from the CO-59.
- Effect:* We could not verify that the \$23,159 reported for licensed software on the CO-59 was correct. The actual amount is unknown as neither record appeared accurate.
- Cause:* There appears to be a lack of effective communication between the information technology division and the business office.
- Recommendation:* The Workers' Compensation Commission should maintain an accurate and up to date software inventory report that can be used as support for the annual CO-59 report. (See Recommendation 1.)
- Agency Response:* "The Workers' Compensation Commission agrees with this recommendation. The commission has initiated an overhaul of our software inventory process. The new process will be in compliance with Chapter 7 of the State Property Control Manual, and will allow the agency to maintain an accurate accounting of all software, including capitalized software which is reported on the CO-59."

Administrative Purpose Only Relationship with the Department of Labor:

- Criteria:* Public Act 77-614, Section 481, codified as Section 31-276a of the Workers' Compensation Act of the General Statutes states "The workers' compensation commissioners and the Workers' Compensation Commission are transferred to the Labor Department for administrative purposes only" as defined within Section 4-38f of the General Statutes.

Condition: The Workers' Compensation Commission is not operating within the Labor Department for administrative purposes only as defined in Section 4-38f of the General Statutes.

Effect: Current practices do not accurately reflect the statutory requirements.

Cause: It is unclear why the statutory requirement was never implemented, because no one currently working at the commission was employed there when the statute was enacted.

Recommendation: The Workers' Compensation Commission should consider seeking a legislative change to the Workers' Compensation Act to reflect current practices. (See Recommendation 2.)

Agency Response: "The Workers' Compensation Commission recognizes the need for this recommendation based upon the Connecticut General Statutes which indicate that the commission is administered by the Department of Labor. However, despite said statutory scheme, the commission, a self-administered agency, does not, and has not operated within the Department of Labor for administrative purposes. As a corrective measure, the commission intends to pursue legislation seeking an appropriate revision to the Connecticut General Statutes reflective of this actual, and longstanding practice."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Department of Administrative Services and its Bureau of Enterprise Systems and Technology, on behalf of the Workers' Compensation Commission, should ensure that employees negotiating contracts and statements of work have the appropriate level of contracting expertise to perform due diligence and ensure that contract terms are in the best interest of the state.** This recommendation is not being repeated as we did not note similar conditions at the commission.
- **The Workers' Compensation Commission, working with the Department of Administrative Services Bureau of Enterprise Systems and Technology, should relocate its backup server to an offsite location to improve controls for disaster recovery.** This recommendation was implemented and will not be repeated.
- **The Workers' Compensation Commission should document the cost effectiveness and any other non-cost impediments to utilizing the "administrative purposes only" relationship to justify why they are not using it and seek a legislative change, if appropriate.** This recommendation is being repeated in a modified form. (See Recommendation 2.)

Current Audit Recommendations:

1. **The Workers' Compensation Commission should maintain an accurate and up to date software inventory report that can be used as support for the annual CO-59 report.**

Comment:

The software inventory that the Workers' Compensation Commission reported on the CO-59 report did not agree with the software inventory maintained by the information technology division.

2. **The Workers' Compensation Commission should consider seeking a legislative change to the Workers' Compensation Act to reflect current practices.**

Comment:

The Workers' Compensation Commission has never operated within the Department of Labor, for administrative purposes only, as defined in Section 4-38f of the General Statutes enacted in 1977.

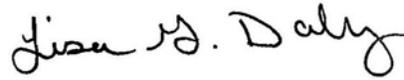
ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Jessica Landino
Matthew B. Wood

CONCLUSION

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



Lisa G. Daly
Administrative Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor