STATE OF CONNECTICUT

AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 and 2007

AUDITORS OF PUBLIC ACCOUNTS
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October 20, 2008

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2006 and 2007

We have made an examination of the financial records of the Workers' Compensation Commission for the fiscal years ended June 30, 2006 and 2007. 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 sixteen 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 sixteen 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.

The Workers' Compensation Commissioners, as of June 30, 2007, were as follows:

John A. Mastropietro, Chairman
Scott A. Barton
Howard H. Belkin
Stephen B. Delaney
Donald H. Doyle, Jr.
Jack R. Goldberg
James J. Metro
Peter C. Mlynarczyk
Leonard S. Paoletta
Nancy E. Salerno
Charles F. Senich
Michelle D. Truglia
Amado J. Vargas
George A. Waldron
Ernie R. Walker

There was one vacancy as of June 30, 2007. John A. Mastropietro was appointed as Chairman effective October 18, 1999, and currently serves in that capacity.

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 had 121 full-time employees, one part-time employee, and four temporary employees as of June 30, 2007.

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.

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 compensation 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 to serve a term of one-year.

Programs and Services:

In addition to its quasi-judicial duties, the Commission provides the following related programs and services:

Education Services:

Information is provided about the workers' compensation system through an internet website, a toll-free telephone information service, publications, educational conferences and seminars, and speakers are made available to various groups on a wide variety of workers' compensation-related topics.

Rehabilitation Services:

Vocational rehabilitation services are provided to eligible injured workers based on their needs. Services may include: evaluation, aptitude, vocational counseling, job seeking skills training, on-the-job training and/or formal training. Services are also made available to employers to help them retain their injured worker. Options available to employers include site consultations for recommendations for accommodating the injured employee, financial incentives to train injured workers for new positions with the employer and/or underwriting a portion of the cost of providing formal classroom training to the injured worker.

Safety and Health Services:

Assists 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.

Statistical Division:

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

Licensing:

The Commission authorizes qualified employers in the State the right to operate an approved Medical Care Plan (sometimes called a PPO) to provide medical treatment for their employees' work-related injuries and illnesses. The Commission also reviews and approves applications for Self-Insurance plans in which employers insure their state-mandated workers' compensation liabilities themselves, rather than through purchasing insurance coverage from commercial insurance carriers.

Fraud:

The State operates a Workers' Compensation Fraud Unit within the Chief State's Attorney's Office, Division of Criminal Justice. This unit investigates complaints of all parties alleged to be engaging in any form of workers' compensation fraud. The cost of the unit is borne by the Commission.

RÉSUMÉ OF OPERATIONS:

Workers' Compensation Administration Fund - Funding and Assessments:

The administrative expenses of the Commission are 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 and legislative processes. Amounts in the Fund can only be expended in accordance with appropriations approved by the General Assembly. The Chairman, in consultation with the State Treasurer, determines the assessment rate needed to fund the Commission's operating costs. Section 31-345 of the General Statutes directs the State Treasurer to assess and collect from insurers and employers amounts sufficient to meet such costs. The collections are deposited in the Workers' Compensation Administration Fund.

Excess funds remaining at the close of each fiscal year as the result of budget surpluses accrue to the Fund. One half of the prior year's expenses remain in the Fund with the balance returned to insurers and employers via a reduced assessment in the following fiscal year.

Workers' Compensation Administration Fund - Receipts:

Workers' Compensation Administration Fund receipts totaled $19,826,928 and $20,875,609 for the fiscal years ended June 30, 2006 and 2007, respectively, and included assessments and interest of $19,806,696 and $20,860,715 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 $20,232 and $14,894 for the fiscal years ended June 30, 2006 and 2007, respectively. Receipts were primarily for photocopying fees and refunds of expenditures.

The Workers' Compensation Administration Fund's fund balance totaled $11,638,775 and $12,668,978 as of June 30, 2006 and 2007, respectively.

Workers' Compensation Administration Fund - Expenditures:

Expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	2004-2005	**2005-2006**	**2006-2007**
Personal services	$ 8,181,616	$ 8,841,733	$ 9,181,693
Contractual services	2,556,779	2,854,452	2,504,198
Commodities	211,177	223,503	252,708
Sundry Charges:			
Training Costs, Non-Employee	1,666,830	1,742,843	1,606,246
Employee Fringe Benefit Costs	4,510,949	5,191,208	4,827,449
Indirect Overhead	725,855	327,392	772,851
Other Sundry Charges	8,289	16,051	7,669
Fixed assets and equipment	12,638	288,467	21,793
Total Expenditures	**$17,874,133**	**$19,485,649**	**$19,174,607**

Total Fund expenditures increased by $1,300,474 from the fiscal year ended June 30, 2005. The increase was mainly attributable to increases in personal services expenditures due to collective bargaining salary and wage increases and related fringe benefit costs associated with those salaries.

Federal and Other Restricted Accounts Fund:

Federal and Other Restricted Accounts Fund receipts consisted of grants received from the State Labor Department that totaled $97,081 for each of the fiscal years ended June 30, 2006 and 2007, respectively. The Commission used these funds to operate its Occupational Disease Surveillance System 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 data bases and medical sources concerning occupational illnesses and injuries at various sites and 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.

CONDITION OF RECORDS

Our examination identified the following reportable conditions.

Property Control and Reporting:

Criteria: The State Comptroller's Property Control Manual requires the following from State agencies:

- Policies and procedures in place to ensure that all assets owned by the agency are properly recorded, reported and accounted for.
- Timely disposition of obsolete inventory items or items not being effectively utilized.
- Proper accounting of fixed assets for the capitalization of personal property.

Condition: Our review of property inventory records and transactions noted the following:

- Unused ($518,121), obsolete ($6,456) or missing ($2,564) assets totaling $527,141 were included in the Commission's current inventory listing.
- Three (3) transactions were coded incorrectly. All or parts of the three transactions were coded to operating expenditure accounts when they should have been coded to capitalized asset accounts.
- Physical inspections of property inventory performed by us disclosed that six items were not found in the location specified on the inventory listing and that one item could not be located.

Effect: Property inventory values and operating expenses were overstated on the State's financial statements.

The Commission has lessened assurance that its capital assets are adequately safeguarded.

Cause: Internal controls over the recording, monitoring and reporting of property inventory were inadequate.

Recommendation: The Commission should improve its internal controls over property inventory. (See Recommendation 1.)

Agency Response: **"**The Commission agrees with the auditors' recommendation on asset management.

Materially, all of the value of the unused assets represents the costs of old assets that were replaced by new equipment which included nine computer servers housing the data base for the WCC computer applications. These items were retained as active assets until the migration to more technically advanced servers located in the Chairman's office and DOIT was completed in January of 2008. These servers were held in reserve in the event of hardware or software failure of the new servers. Additional servers have remained because the Commission switched over to DOIT for file storage, e-mail and printing.

All obsolete and missing equipment was purchased in 1994; their useful life has long been surpassed and these items should have been surplused/scrapped.

The Commission will code all ancillary costs of new equipment purchases to capital equipment funds. This will significantly increase that amount of capital equipment money that will be requested by the Commission. One of the errors resulted from a payment processed by DOIT which arrived well after the close of the fiscal year, thus eliminating the possibility of a correction.

The Commission is reassessing its internal controls concerning asset management. We believe that now having a part-time DOIT IT manager will facilitate the accurate monitoring and reporting of IT equipment."

Ethics – Agency Contract Certifications:

Background: Section 4-252 of the Connecticut General Statutes prohibits State agencies from executing large State contracts unless the State agency obtains written gift and campaign certifications from the prospective contractors. An official or employee of the State agency who is authorized to execute the contract shall certify that the selection of contractor was not the result of collusion, the giving of a gift or the promise of a gift, compensation, fraud or inappropriate influence from any person.

Criteria: All State contracts between State agencies and private entities with a value of $50,000 or more in a calendar or fiscal year shall comply with the gift and campaign contribution certification requirements of Section 4-252 of the Connecticut General Statutes.

Condition: Our review of three contracts with vendors providing rehabilitative training services to the Commission valued in excess of $50,000 noted that certifications were not completed by the Commission's authorized signatory for all three contracts. The Commission did obtain gift and campaign certifications from vendors for all three contracts.

Effect: The State has lessened assurance that the contracting process was void of improprieties, favoritism, unfair practices or ethical lapses.

Cause: Administrative controls to comply with the State's contracting requirements were inadequate.

Recommendation: The Commission should establish administrative controls that ensure that certifications are completed by the Commission's authorized contract signatory at the time of contract execution. (See Recommendation 2.)

Agency Response: "The Commission agrees with the auditors' recommendation regarding the "Certification by Agency Official or Employee Authorized to Execute Contracts". Each contract file contained the required OPM Ethics Form 1 titled "Gift and Campaign Contribution Certification" from the vendors as required for contracts having a value of $50,000 or more.

The Commission did, however, inadvertently overlook executing OPM Ethics Form 3 titled "Certification by Agency Official or Employee Authorized to Execute Contracts". Immediately upon recognition of this oversight, the Commission's certifications were executed by the Commission's authorized contract signatory. Administrative controls have been expanded to include a checklist to prevent future errors.

The Commission takes very seriously its responsibility to practice honest and ethical contracting. The Workers' Compensation Commission adheres to the highest standards in all purchasing activities regardless of the amount of the contract."

Ethics – Exit Interviews:

Background Executive Order Number 1 directed the Special Council for Ethics Compliance to provide the Governor with an Ethics Compliance Plan. The plan recommends measures each agency of the Executive Branch must adopt in order to foster compliance with state ethics laws.

Criteria: Before any State employee leaves State service, an exit interview should be conducted by the agency's Ethics Liaison Officer to once again remind the individual of potential issues relating to future employment opportunities. A written summary of post-state employment rules should be provided at that time. (Executive Order Number 1)

Condition: Exit interviews were not conducted for the three (3) employees sampled who resigned or were terminated during the audit period.

Effect: If exit interviews are not conducted, the risk of ethical violations with respect to subsequent employment is increased.

Cause: The Commission does not have formalized procedures in place for conducting exit interviews with employees leaving State service.

Recommendation: The Commission should establish procedures that ensure that exit interviews are conducted with employees leaving State service and that departing employees receive a written summary of post-state employment rules. (See Recommendation 3.)

Agency Response: "The Commission agrees with the auditors' recommendation. The Ethics Liaison will schedule exit interviews with all employees prior to their separation from State service. A summary of the post-state employment section of the code of ethics will be provided via email prior to the meeting so that the employee has an opportunity to become familiar with the materials in case there are any questions. An item concerning the scheduling of the exit interview has been added to the Checklist for Terminating an Employee which is an internal document used by the Human Resources and Payroll divisions to ensure that proper procedures are followed when an employee leaves the Commission."

Receipts – Timely Depositing:

Criteria: Section 4-32 of the Connecticut General Statutes requires each State agency receiving any money or revenue for the State, shall, within twenty-four hours of its receipt, account for and, if the total of the sums received amounts to five hundred dollars or more, deposit the same in the name of the State in depositories designated by the State Treasurer. Total daily receipts of less than five hundred dollars may be held until the total receipts to date amount to five hundred dollars, but not for a period of more than seven calendar days. The State Treasurer is authorized to make exceptions to the limitations herein prescribed upon written application from the head of the State agency stating that compliance would be impracticable and giving the reasons therefore.

Condition: Our review of deposits made in the month of April of 2007 identified 26 receipts totaling $501 that were deposited late. In all instances the receipts were held and not deposited within the seven calendar day time period prescribed in the statute.

Effect: Untimely depositing of receipts increases the risk of loss or theft.

Cause: Internal controls over the depositing of receipts were inadequate.

Recommendation: The Commission should establish internal controls that ensure that receipts are deposited in accordance with Section 4-32 of the Connecticut General Statutes, or alternatively, obtain approval from the Treasurer granting an exception to the depositing limitations. (See Recommendation 4.)

Agency Response: "The Commission concurs with the auditor's recommendation. The Commission is instituting additional monitoring procedures that will ensure that receipts are deposited in accordance with Section 4-32 of the Connecticut General Statutes."

Appropriations – Authorized Expenditures:

Criteria: Except with respect to certain transfers or revisions of appropriations by the Governor with the concurrence of the Finance Advisory Committee, no appropriation may be used for any purpose other than what it was specified for. (Sections 4-69 and 4-94 of the General Statutes)

Condition: Our review of indirect overhead costs and certain fringe benefit retirement costs charged to the Workers' Compensation Administration Fund in the fiscal years ended June 30, 2006 and 2007, disclosed that both categories of costs were charged to the Commission's indirect overhead appropriation accounts despite having separate appropriation accounts for indirect overhead costs and fringe benefits in both years.

Effect: State budgetary financial control procedures were not followed. Indirect overhead appropriation accounts were undercharged $222,088 while fringe benefit appropriation accounts were overcharged $222,088.

Cause: The cause was not determined.

Recommendation: The Commission should establish internal controls that ensure that indirect overhead costs and fringe benefit costs are charged to the appropriations for which they were authorized. (See Recommendation 5.)

Agency Response: "The Commission agrees with the auditors' recommendation on Indirect Overhead.

With the unique nature of the Indirect Overhead billing and the variance for Commissioners' fringe benefits billing, the Commission has for many years processed the Comptroller's annual cost statement following the same procedures. Noting that there is no effect to the industry assessment billing, and with full agreement of the Office of the Comptroller and the Office of Policy and Management, the Commission will incorporate new procedures with the next cost statement processing.

Out of necessity, our ability to comply with the new procedures in the future will be directly related to the accuracy of the Comptroller's Statewide Cost Allocation Plan estimate."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Commission should strengthen internal controls regarding the processing of longevity and termination payments. The Commission has complied with this recommendation.

- The Commission should improve property control, including the updating of Core-CT inventory records, and should institute procedures to ensure that the inventory reported to the State Comptroller is reported accurately. The Commission did update its Core-CT inventory records. However, our current review identified internal control deficiencies relative to property inventory control and reporting. This recommendation is repeated to reflect current conditions. (See Recommendation 1.)

- The Commission should implement control procedures to ensure compliance with the contract terms for the consultants. The Commission has complied with this recommendation.

Current Audit Recommendations:

1. **The Commission should improve its internal controls over property inventory.**

   Comment:

   We noted unused, obsolete or missing assets totaling $527,141 that were included on the Commission's current inventory listing. We also noted three transactions that were expensed that should have been capitalized and identified several items of inventory that were not located in areas indicated on Core-CT inventory records.

2. **The Commission should establish administrative controls that ensure that certifications are completed by the Commission's authorized contract signatory at the time of contract execution.**

   Comment:

   Our review of three contracts with vendors providing rehabilitative training services to the Commission valued in excess of $50,000 noted that certifications were not completed by the Commission's authorized signatory for all three contracts.

3. **The Commission should establish procedures that ensure that exit interviews are conducted with employees leaving State service and that departing employees receive a written summary of post-state employment rules.**

   Comment:

   Exit interviews were not conducted with three employees who resigned or were terminated during the audit period.

4. **The Commission should establish internal controls that ensure that receipts are deposited in accordance with Section 4-32 of the Connecticut General Statutes, or alternatively, obtain approval from the Treasurer granting an exception to the depositing limitations.**

   Comment:

   Our review of deposits identified 26 receipts totaling $501 that were deposited late. In all instances the receipts were held and not deposited within the seven calendar day time period prescribed in the statute.

5. **The Commission should establish internal controls that ensure that indirect overhead costs and fringe benefit costs are charged to the appropriations for which they were authorized.**

   Comment:

   Our review of indirect overhead costs and certain fringe benefit retirement costs charged to the Workers' Compensation Administration Fund in the fiscal years ended June 30, 2006 and 2007, disclosed that both categories of costs were charged to the Commission's indirect overhead appropriation accounts despite having separate appropriation accounts for indirect overhead costs and fringe benefits in both years.

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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2006 and 2007 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 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. 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Workers" Compensation Commission's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficie*ncy exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiency, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be a significant deficiency in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1- reporting of unused, obsolete or missing assets.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Workers' Compensation Commission complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Workers' Compensation Commission's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Workers' Compensation Commission's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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.

Joe Faenza
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts