STATE OF CONNECTICUT

AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 and 2005

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

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September 20, 2006

AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 and 2005

We have made an examination of the financial records of the Workers' Compensation Commission for the fiscal years ended June 30, 2004 and 2005. 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, 2005, were as follows:

Scott A. Barton
Howard H. Belkin
Stephen B. Delaney
Donald H. Doyle, Jr.
Jesse M. Frankl
Ralph E. Marcarelli
John A. Mastropietro, Chairman
James J. Metro
Nancy E. Salerno
Leonard S. Paoletta
Charles F. Senich
Michelle D. Truglia
Amado J. Vargas
George A. Waldron
Ernie R. Walker
A. Thomas White, Jr.

John A. Mastropietro was appointed as Chairman effective October 18, 1999, and continues to serve in that position. In addition to the above, Michael S. Miles, served as 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 had 126 full-time employees, one part-time employee, and eleven temporary employees as of June 30, 2005.

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 twenty-five 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 in the Workers' Compensation Administration Fund that exceeds fifty 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.

Workers' Compensation Administration Fund Receipts:

Workers' Compensation Administration Fund receipts totaled $18,172,809 and $14,568,692 for the fiscal years ended June 30, 2004 and 2005, respectively, and included assessments and interest of $17,918,436 and $14,098,574, 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 $16,912 and $34,024 for the fiscal years ended June 30, 2004 and 2005, respectively. Receipts were primarily in the categories of photostating and copying fees, insurance reimbursements, and refunds of expenditures.

The Workers' Compensation Administration Fund's fund balance, which reflects the accumulated annual excess of assessments over expenditures, totaled $15,841,496 and $11,940,967 as of June 30, 2004 and 2005, respectively.

Workers' Compensation Administration Fund Expenditures:

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

	2002-2003	2003-2004	2004-2005
Personal services	$ 8,746,627	$ 7,831,772	$ 8,181,616
Contractual services	2,623,778	2,515,571	2,556,779
Commodities	154,761	202,185	211,177
Sundry Charges:			
Training Costs, Non-Employee	3,379,317	1,305,446	1,666,830
Employee Fringe Benefit Costs	3,122,211	3,563,487	4,316,227
Other Sundry Charges	942,928	1,192,113	928,866
Equipment and Leasehold Improvements	303,094	11,797	12,638
Total Expenditures	**$19,272,716**	**$16,622,371**	**$17,874,133**

Personal services decreased during the 2003-2004 fiscal year due to a decrease in the number of employees that was caused by employee layoffs and retirements. Employee fringe benefit costs increased during the 2003-2004 fiscal year due to a change in the way fringe benefit costs were calculated due to the implementation of the new Core-CT accounting system in October 2003. Personal services and employee fringe benefit costs increased during the 2004-2005 fiscal year with the hiring of new staff and because of collective bargaining increases affecting salary and wages for full time employees. Non-employee training costs, which are for education and training provided to injured workers, decreased during the 2003-2004 fiscal year as a direct result of the staff reductions. Expenditures for equipment and leasehold improvements decreased during the 2003-2004 fiscal year due to fewer computer purchases.

Federal and Other Restricted Accounts Fund:

Public Act 04-2 (May Special Session) authorized the establishment of new special revenue funds relative to grants and restricted accounts. During the 2003-2004 fiscal year, the State Comptroller established the "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as "Federal and Other Grants."

Federal and Other Restricted Accounts Fund receipts consisted of grants that totaled $97,081 for each of the fiscal years ended June 30, 2004 and 2005, respectively. Expenditures consisted of grants that totaled $97,081 for each of the fiscal years ended June 30, 2004 and 2005, respectively.

CONDITION OF RECORDS

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

Payroll and Personnel – Longevity and Termination Payments:

Criteria: Section 31-277(b) of the General Statutes requires that each compensation commissioner, who has completed not less than ten years of service as a commissioner, or other State service or service as an elected officer of the state, or any combination of such service, shall receive semiannual longevity payments based on service completed as of the first day of July and the first day of January of each year.

In accordance with Section 5-252 of the General Statutes, any State employee leaving State service shall receive a lump sum payment for accrued vacation time.

Section 5-247 of the General Statutes, requires that each employee who retires under the provisions of Chapter 66 shall be compensated, effective as of the date of his or her retirement, at the rate of one-fourth of such employee's salary for sick leave accrued to his or her credit as of the last day on the active payroll up to a maximum payment equivalent to sixty days pay.

Section 5-213(b) of the General Statutes states that semiannual longevity lump-sum payments shall be made on the last regular day in April and October of each year, except that a retired employee shall receive, in the month immediately following retirement, a prorated payment based on the proportion of the six-month period served prior to the effective date of his or her retirement.

Condition: Our review of longevity payments disclosed that the Agency had the incorrect longevity service time on file for two of the twelve compensation commissioners reviewed. In one case this resulted in two longevity payments totaling $1,912 that were not paid. In the other instance, the commissioner's service time was overstated in excess of one year, but did not result in an overpayment during the audit period.

Our review of termination payments for nine employees disclosed that one employee was underpaid for vacation and sick leave by $1,902 and $55, respectively, and another employee was not paid for longevity totaling $509.

Effect: Employees were not paid the correct amounts owed. In addition, the overstatement of eligible service time could result in employees receiving increases in longevity payments prior to being eligible.

Cause: In one case, the Commission omitted prior service at another State Agency from the commissioner's years of service. In the other instance, the Commission carried forward prior service at another State Agency without obtaining and reviewing the supporting personnel records.

Regarding separation payments, the employee's vacation and sick leave balances were incorrect at the time of retirement due to errors made when the employee's accrued leave balances were reinstated upon approval of a workers' compensation claim. The Agency overlooked paying one employee's pro-rated longevity upon retirement.

Recommendation: The Commission should strengthen internal controls regarding the processing of longevity and termination payments.

Agency's Response: "The Commission concurs with the findings in the audit report. The findings resulted in underpayments to three employees; the Agency will process payments to these employees. One finding was that an employee had been overpaid by the previous employing agency. The Workers' Compensation Commission will notify that agency of this finding.

The Commission will implement two new internal control practices that should ensure correct longevity and termination payments in the situations where incorrect payments were discovered. First, the Agency will recalculate length of prior State service for newly-appointed Commissioners upon beginning their employment with the Workers' Compensation Commission. Second, the Agency will implement an "Employee Termination Checklist" that will include a listing of all possible payments due to an employee upon retirement, resignation, transfer to another State agency, or discharge.

The audit review of longevity payments discovered two errors in longevity payments to Commissioners. In both cases, these were individuals with prior State service with the Judicial Department. It has been the Agency's practice to accept the information provided either on the Interagency Transfer Form or other communication from the previous employing agency. In the future, the personnel department will ensure that a complete employment history is received and will recalculate the length of service at that Agency to ensure the accuracy of the information.

Regarding termination payments, one of the errors discovered was an oversight by the agency in the situation where an employee was on unpaid leave of absence on the date that the longevity payment was issued. Under normal circumstances the longevity payment is issued upon the employee's return from leave. In this situation, the employee never returned to active service, but transitioned directly into retirement (based on disability). As the employee's leave balances had been exhausted prior to the medical leave, the usual payment of vacation and one-quarter of accrued sick leave did not apply. As any employee who leaves State service for any reason must be separated in the Core-CT computer system, use of a checklist upon termination would eliminate this type of oversight in the future.

The second termination error was a result of the incorrect calculation of restoration of sick and vacation leave time that an employee used while receiving workers' compensation benefits and waiting for the initial check from the third party administrator. The employee's first two pay periods of workers' compensation leave were the last pay period prior to the implementation of Core-CT and the first pay period in the new system. The timesheets were incorrectly coded to use sick time for both pay periods; however, the employee only had enough sick leave accrued to cover the first pay period. The error was not discovered for some time as the leave accrual part of Core-CT was not working immediately upon implementation so the system allowed this incorrect entry. As a result, the restoration of leave time was not correct. This employee returned from workers' compensation leave and retired ten months later. As a result of the error in the leave accrual restoration, the payout of accrued vacation and one-quarter of accrued sick leave was also incorrect. The Agency believes that this error would not have occurred had the Core-CT system been working properly and that it is unlikely that this type of error would be repeated in the future as the accrual balance calculations appear to be working correctly."

Property Control and Reporting:

Criteria: Section 4-36 of the General Statutes requires that each State Agency establish and keep an inventory account in the form prescribed by the State Comptroller. The State Property Control Manual requires that all State agencies have policies and procedures in place to ensure that the State's property, plant and equipment are properly managed. The Property Control Manual specifies requirements and standards that State agencies' property control systems must comply with including the taking of annual physical inventories, the reporting of surplus property to the State and Federal Property Distribution Center, and the preparation of Form CO-853, Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles), to report losses/damages to property other than vehicles pertaining to theft, vandalism, criminal malicious damage, missing property (cause unknown) or damages caused by wind, fire or lightening.

The Agency is required to transmit annually, on or before October first, to the Comptroller a detailed inventory, as of June thirtieth, of all property, real or personal, owned by the State and in the custody of such department.

In July 2005 most State Agencies began using the Core-CT Asset Management module to track inventory.

Condition: Our review of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2004 and 2005, disclosed the following.

- One equipment item in the amount of $1,664, which was stolen in July 2004, was not reported as a deletion and was not removed from the ending balance of furnishings and equipment for the 2004-2005 fiscal year. A Form CO-853 Report of Lost Property was not prepared and this item also remains on the Commission's current inventory listing.
- The Commission incorrectly reported an improvement to leased property of $10,600 under furnishings and equipment for both fiscal years.
- During the 2004-2005 fiscal year, we noted one purchase in the amount of $2,941 for improvements to leased property that was not reported on the CO-59. The additions of improvements to leased property to the Commission's inventory report was a condition cited in our prior report.

Our review of forty-five inventory items randomly sampled from the Commission's inventory listing and twenty-one items identified by a random inspection of the Commission's premises disclosed that two items on the Agency's Fixed Assets Tracking System (FATS) inventory listing could not be located and one item was not in the location specified on the inventory listing.

We were informed that the Agency has not verified or updated its inventory records on the Core-CT Asset Management Module since the records were first downloaded in July 2005. During our physical inventory inspection we compared the FATS and Core-CT inventory listings for the sampled items. Our review disclosed discrepancies in nine items reviewed.

Effect: Deficiencies in the control over the equipment inventory result in a decreased ability to properly safeguard State assets. The Agency is not in compliance with the requirements of the State Property Control Manual and the Agency's report of inventory to the State Comptroller contained errors.

Cause: The Commission has not yet devoted the time to reconciling its FATS and Core-CT inventory listings. The cause of the other errors is unknown.

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.

Agency's Response: "The Commission agrees with the auditors' recommendation regarding inventory. Core-CT's asset management program was newly implemented as of FY 2006, thus the Commission is in the process of reconciling the conversion file from the FATS system to Core-CT. When the Core-CT base is verified and the adjustments are added into both systems, Commission staff will compare the FATS inventory records to Core-CT which will enable the agency to accurately monitor and report the agency's fixed assets."

Contract Monitoring:

Background: The Commission utilizes three individuals from two consulting companies for programming and support of its workers' compensation computer systems. The contracts are between the companies and the State Department of Information Technology (DOIT). Upon receiving approval from DOIT to use the consultants, the Agency executes purchase orders with the companies to commit funding. Charges are on a per hour basis, as per the contracts. The Commission's expenditures for computer consultants totaled $387,000 for each of the fiscal years ended June 30, 2004 and 2005.

Criteria: A system of internal control should include procedures to ensure payments are made in compliance with contract terms and provisions.

Condition: Our review of payments made for three consultants for the fiscal years ended June 30, 2004 and 2005, disclosed the following.

For one consultant we reviewed all invoices and supporting timesheets for the audit period. Our review disclosed that the number of hours billed and paid exceeded the standard eight-hour work day under the contract for 187 out of 434 days worked and there was no prior Commission approval as required by the contract. In addition, for twenty-four days, the consultant worked in excess of the nine-hour work day maximum per the contract and was paid for such work.

For two consultants, we reviewed all invoices and supporting timesheets from April 2004 to June 2005. Prior to April, weekly time records were not prepared. Our review disclosed that the number of hours billed and paid exceeded the standard seven-hour work day under the contract for 272 out of 272 days worked and 273 out of 275 days worked, respectively, and there was no prior Commission approval as required by the contract.

Effect: The lack of an effective monitoring system increases the risk that over-billing could occur and not be detected. The hours billed in excess of the amounts allowed in the contract, without prior written approval of the Commission, could be considered unauthorized, as could the hours billed in excess of the maximum per day.

Cause: Although the Commission signed the consultants' time records, the Commission did not monitor the consultants' work day schedules for compliance with contract terms.

Recommendation: The Commission should implement control procedures to ensure compliance with the contract terms for the consultants.

Agency's Response: "The Commission agrees with the auditors' recommendation to further document the consultants' time sheet records by requiring written preauthorization for any schedule change over the specified contract work day.

Historically, authorization for schedule changes has been verbally pre-approved by management, i.e., Chief Administrative Officer or Personnel Director. This system worked well for all parties concerned as it accommodated the Commission's needs to have certain programming tasks completed in a specific time period. Pursuant to DOIT's contracting authority, each consultant is required to work 12 months per year for a specific hourly rate up to a maximum contract fee as follows:

- Consultant A: 1,800 hours per year @ $75.00 = maximum of $135,000 per year for FY 2006; and
- Consultants B & C: total of 3,600 hours per year @ $70.00 = maximum of $252,000 per year for FY 2006 and FY 2007.

Given the maximum contract fee structure, regardless of the number of hours worked in any given week, no overtime has ever been paid to a consultant, nor has any consultant ever been paid more than the maximum contract fee.

In response to the auditors' recommendations, the Commission will implement this additional recordkeeping procedure beginning on May 1, 2006. In order to standardize the work day for all consultants, the Commission has pre-approved in writing a standard 8-hour work day for all consultants in order to conform to the agency's standard work day. The Commission shall require each consultant to obtain written pre-approval from management for any schedule change over eight (8) hours in any one day."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Commission should establish procedures to ensure that all timesheets submitted for processing are properly completed by the employee and approved by supervisors. The procedures should include a requirement that the employee agree or disagree with any changes made to the applicable timesheet. The Commission has complied with this recommendation.

- The Commission should take steps to ensure that all new purchases are reflected in its inventory records and reported to the State Comptroller as required. This recommendation is repeated to reflect current conditions. (See Recommendation 2.)

- The Workers' Compensation Commission should establish policies for its Workers' Rehabilitation Unit that detail the documentation required to be made a part of each client's hard copy file and to ensure that the documentation in each file is complete. The Commission has complied with this recommendation.

- The Commission should implement control procedures to effectively monitor the hours billed by its consultants and to ensure compliance with the contract terms for the consultants. This recommendation is being repeated to reflect current conditions. (See Recommendation 4.)

Current Audit Recommendations:

1. **The Commission should strengthen internal controls regarding the processing of longevity and termination payments.**

   Comment:

   Our review of longevity payments disclosed that the Commission had the incorrect longevity service time on file for two of the twelve compensation commissioners reviewed. Our review of termination payments for nine employees disclosed that one employee was underpaid for vacation and sick leave by $1,902 and $55, respectively, and another employee was not paid for longevity totaling $509.

2. **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.**

   Comment:

   Our review disclosed errors in the preparation of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2004 and June 30, 2005. Our review also disclosed equipment inventory items that could not be located or were not in the location specified on the inventory records. In addition, the Agency has not verified or updated its inventory records on the Core-CT Asset Management Module since the records were first downloaded in July 2005.

3. **The Commission should implement control procedures to ensure compliance with the contract terms for the consultants.**

   Comment:

   Our review disclosed instances in which the Commission made payments to consultants for hours billed in excess of the standard work day under the contract and there was no prior Commission approval as required by the contract. We also noted that one consultant worked in excess of the nine-hour work day maximum per the contract and was paid for such work.

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, 2004 and 2005. 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, 2004 and 2005 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 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 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, 2004 and 2005, 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 our finding of the lack of an effective contract monitoring procedure for the Agency's consultants represents a reportable condition.

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 the reportable condition described above is not a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance that 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.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts