STATE OF CONNECTICUT

AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

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

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September 24, 2010

AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 and 2009

We have made an examination of the financial records of the Workers' Compensation Commission for the fiscal years ended June 30, 2008 and 2009. 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, 2009, were as follows:

John A. Mastropietro, Chairman
Scott A. Barton
Randy L. Cohen
Stephen B. Delaney
Daniel E. Dilzer
Donald H. Doyle, Jr.
Christine L. Engel
Jack R. Goldberg
Jodi Murray Gregg
Peter C. Mlynarczyk
Nancy E. Salerno
Charles F. Senich
David W. Schoolcraft
Michelle D. Truglia
Amado J. Vargas
Ernie R. Walker

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 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 with implementation of the workers' compensation regulations regarding "Establishment and Administration of Safety and Health Committees at Work Sites."

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.

SIGNIFICANT LEGISLATION:

Public Acts 09-1 and 09-2 authorized the transfer of $7,000,000 from the Workers' Compensation Administration Fund to the General Fund in order to reduce a projected General Fund deficit for the fiscal year ending June 30, 2009.

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:

Receipts totaled $21,318,211 and $22,370,597 for the fiscal years ended June 30, 2008 and 2009, respectively, and included assessments of $20,563,416 and $22,045,236 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 $22,302 and $14,242 for the fiscal years ended June 30, 2008 and 2009, respectively. Receipts were primarily for photocopying fees and refunds of expenditures.

Workers' Compensation Administration Fund - Expenditures:

Expenditures totaled $20,698,335 and $21,948,931 for the fiscal years ended June 30, 2008 and 2009, respectively, and included disbursements of $719,598 and 696,109 made by the Department of Labor and the Division of Criminal Justice from appropriations made directly to those State entities. Expenditures made by the Workers' Compensation Commission for the two fiscal years examined and the prior fiscal year are summarized below:

	2006-2007	2007-2008	2008-2009
Personal services	$ 9,181,693	$ 9,205,696	$ 9,647,083
Contractual services	2,504,198	2,792,424	2,765,652
Commodities	252,708	200,217	316,114
Sundry Charges:			
Training Costs, Non-Employee	1,606,246	1,750,473	1,911,588
Employee Fringe Benefit Costs	4,827,449	5,249,299	5,502,791
Indirect Overhead	772,851	746,404	1,107,242
Other Sundry Charges	7,669	5,428	2,352
Fixed assets and equipment	21,793	28,796	0
Total Expenditures	**$19,174,607**	**$19,978,737**	**$21,252,822**

Total Commission expenditures increased by $2,078,215 from the fiscal year ended June 30, 2007. 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 and increased expenditures for training and indirect overhead.

Workers' Compensation Administration Fund – Fund Balance:

The fund balance of the Fund as of June 30, 2008 and 2009 was $13,419,348 and $6,867,522, respectively, compared to $12,668,978 as of June 30, 2007. The decrease in fund balance of $5,801,456 was mainly attributable to the transfer of $7,000,000 from the Fund to the General Fund authorized by Public Acts 09-1 and 09-2. The $7,000,000 was factored into the annual assessment for the fiscal year ending June 30, 2010.

Federal and Other Restricted Accounts Fund:

Federal and Other Restricted Accounts Fund receipts consisted of grants received from the Department of Labor totaling $97,368 and $92,655 for the fiscal years ended June 30, 2008 and 2009, respectively. The grants were made from the Department of Labor's Occupational Health Clinics appropriation whose disbursements were noted earlier in this report. 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 audit identified the following reportable conditions.

Property Control - Reporting:

Criteria: State agencies are required to submit an annual report of all capitalized real and personal property owned by the State and in the custody of such agency to the State Comptroller. The report must reflect the sum total of the physical inventory as of June 30. (State Comptroller Property Control Manual.)

Condition: We noted that the Commission's annual inventory report submitted to the State Comptroller included the cost of three assets that were not in the Commission's custody as of June 30, 2009. The three assets were scrapped and disposed of prior to June 30, 2009 but were not removed from the Commission's inventory records.

Effect: Amounts reported on the property inventory report were overstated by $4,824.

Cause: Internal controls over physical inventory inspections were inadequate.

Recommendation: The Commission should implement procedures that ensure that annual property inventory reports reflect the cost of property in its custody at year end. (See Recommendation 1.)

Agency Response: "The Commission agrees with the auditors' recommendation on property control/asset management. Two of the assets that resulted in the overstatement of the agency's assets were disposed of in a timely manner following state property control procedures. Due to a clerical error, the first, with a value of $2,203, was not removed from the agency's active assets. The second, valued at $1,046, was authorized for scrap and disposed of in April, 2009, however, during a verification of capital assets with district offices, it was discovered that the asset had not been recorded as retired in CORE-CT. A third asset, valued at $1,575, was not located during a physical inventory review and, during the asset reconciliation process, remained on the agency's active asset listing. The agency has invested considerable time and effort to improve its internal controls over asset management. Additional staff has been devoted to surplus property activities in order to ensure the timeliness and accuracy of the reconciliation of discrepancies arising from physical inventory review."

Internal Controls – Annual Self-Evaluation and Risk Assessment:

Background: In May of 2009, the State Comptroller issued its Internal Control Guide. The purpose of the guide is to assist State agencies in performing annual self-evaluations and risk assessments of their internal controls.

Criteria: The State Comptroller's Internal Control Guide identifies the following action steps for State agencies to take to evaluate their internal controls:

- Perform an initial review of the accounting systems in place.
- Prepare descriptions of these systems.
- Analyze the control environment.
- Identify the system's control procedures.
- Document key internal control procedures.

Condition: Our review of the Commission's annual internal control self-evaluation for the fiscal year ended June 30, 2009 noted that several of the action steps in the guide were not performed and/or documented. The Commission completed the internal control questionnaire but did not prepare and document descriptions of its accounting systems and their related internal controls. Commission staff informed us that internal control questionnaire checklists were distributed to supervisors for completion. Supervisors completed the checklists and returned them to management. Management compared the checklists submitted by supervisors to checklists prepared in the prior year. Management identified any differences between years and met with the supervisors to discuss the changes and any questions they might have. The completed questionnaire was then discussed with upper management.

Effect: Management's ability to identify, analyze and manage risks relative to its objectives is minimized.

Cause: We were informed that Commission staff was unaware of the new internal control guide issued by the State Comptroller.

Recommendation: The Commission should perform its annual internal control self-evaluation and risk assessment in accordance with the internal control guide issued by the State Comptroller. (See Recommendation 2.)

Agency Response: "The Commission agrees with the auditors' recommendation on internal controls. While the internal control questionnaire was completed and analyzed, the agency did not generate all of the documentation required in accordance with the new internal control guide issued by the State Comptroller. The documentation that the agency generated was not sufficient to meet the new standards. All departments have already begun to produce documentation pertinent to their respective areas for the completion of the current fiscal year internal control review."

Ethics – Statement of Financial Interests:

Criteria: Section 1-81-2(b) of the Regulations of Connecticut State Agencies requires an individual who occupies a position which requires the filing of an Annual Statement of Financial Interests shall file such statement for the preceding year by the first of May of any year in which he or she holds such a position. However, a person assuming such a position after March thirty-first of any year shall file for the preceding year within thirty days of assuming his or her position.

Condition: Our review of statement of financial interest filings disclosed that two employees employed on May 1, 2007 and September 1, 2007 did not file statements of financial interest covering the 2006 calendar year.

Effect: Potential conflict of interests could exist that are not disclosed.

Cause: The Commission was unaware of the requirement that employees who are newly hired into a position where they would be required filers be required to file for the previous calendar year within 30 days of hire.

Recommendation: The Commission should implement administrative controls that ensure that all new employees required to file statements of financial interest statements do so. (See Recommendation 3.)

Agency Response: "The Commission agrees with the auditors' recommendation on the Office of State Ethics requirement of the Statement of Financial Interest. The Human Resources Division has implemented a procedure which requires that all new hires be reviewed to determine whether they are required to file a Statement of Financial Interest with the Office of State Ethics. Required filers will be informed of this requirement immediately upon hire. The Ethics Liaison will add such employees to the SFI listing on the Office of State Ethics website. The Ethics Liaison will email such employees with the link to the website where they can file the required statement electronically within the 30-day deadline."

Ethics – Training:

Criteria: Commission administrative procedures require employees to complete the on-line ethics training program provided by the Office of State Ethics. The program provides for a test at the end that provides a certification of completion which is filed in the employee's personnel file.

Condition: Our review of three personnel files noted that two employees did not complete the on-line training program.

Effect: The Commission has lessened assurance that new employees understand the State's code of ethics.

Cause: The Commission did not have sufficient administrative controls in place that ensured that all new employees completed the on-line ethics training program.

Recommendation: The Commission should implement administrative controls that ensure that all new employees complete the on-line ethics training program. (See Recommendation 4.)

Agency Response: "The Commission agrees with the auditors' recommendation on ethics training. The Human Resources Division has implemented a procedure which requires that all new hires be notified of the requirement to complete the on-line ethics training program within 30 days of employment. The Ethics Liaison will email all new employees with the link to the website where they can complete the on-line training. New employees will be required to submit the Certificate of Completion within the 30-day deadline. Certificates will be maintained in employee personnel files."

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: We reviewed 25 deposits consisting of 101 receipts. We identified 23 receipts totaling $882.78 that were deposited late as noted below:

Number of Days Until Deposited	Number of Receipts	Amount
8	8	$ 308.18
9	3	86.10
10	4	164.10
12	1	92.50
13	2	154.50
14	1	3.00
16	1	9.15
23	1	3.75
26	1	6.50

29	1	55.00

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 5.)

Agency Response: "The Commission agrees with the auditors' recommendation on timely depositing. The agency has instituted an additional procedure of a weekly e-mail reminder to all staff whose duties include depositing. This calendar reminder requires a written e-mail response to the central office thereby ensuring that deposits will be done on a weekly basis."

Receipts – Unauthorized Cash:

Criteria: Management personnel of State agencies are responsible for establishing and maintaining an effective internal control structure. The objective of an internal control structure is to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and the financial transactions are executed in accordance with management's authorization.

Condition: We noted that one of the Commission's district offices maintained a cash box in the amount of $48 for the purpose of making change for photocopying charges. When we inquired with district office personnel as to the origin of the money we were informed that the previous office supervisor had set aside the money but that the current supervisor had no knowledge of the source of the money. We also inquired with central office staff and were told that they did not have any knowledge of the existence of the money.

Effect: Management has lessened assurance that transactions are executed in accordance with its general and specific authorizations.

Cause: The cause was not determined.

Recommendation: The Commission should discontinue using the money as a change fund and deposit the money to the Workers Compensation Administration Fund. (See Recommendation 6.)

Agency Response: "The Commission agrees with the auditors' recommendation on unauthorized cash. Management has never authorized any additional funds to be kept for any purpose in any office. The funds were immediately deposited with the State Treasurer. The agency has verified that there are no unauthorized funds in any other district office."

Information Systems – Disaster Recovery Plan:

Criteria: The objective of a disaster recovery plan is to identify the necessary activities that must be performed to successfully restore the essential processing functions of the entity at an off-site location when the main site is unavailable. It is essential that plans be updated as required to reflect all operational, organizational and system changes, and be periodically tested to verify its operational effectiveness should the need arise to invoke its use.

Condition: Our review of the Commission's disaster recovery plan disclosed that the plan was not current (March of 1996) and had not been tested.

Effect: The plan may not provide the proper directions needed to restore operations in a timely manner in the event of a disaster.

Cause: The Commission has not had a full-time information technology (IT) manager for several years. Various IT managers from the Department of Information Technology have been assigned to the Commission on a part time basis during this period.

Recommendation: The Commission should update its disaster recovery plan to reflect its current operating systems and periodically test the plan to ensure its operational effectiveness. (See Recommendation 7.)

Agency Response: "The Commission agrees with the auditors' recommendation on its disaster recovery plan. The Commission recognizes that the existing disaster recovery plan no longer accurately reflects the technology infrastructure of the agency. The Commission will develop a new disaster recovery plan that takes into account the applications, equipment and locations in use today. Once complete, the Commission will review the plan annually and will test it on an annual basis to ensure its continued viability. In the absence of a permanently assigned IT manager, the Department of Information Technology will work with the Commission to ensure that the disaster recovery plan remains up to date."

Rehabilitation Services – Gainful Employment

Criteria: Rehabilitation services provided by the Commission are designed to assist injured workers in returning to gainful employment. (Workers' Compensation Commission website.)

Condition: Our review of one client's case disclosed that the client was gainfully employed at the time he was initially interviewed by the Commission in November of 2008 for entry into a Rehabilitation Services job retraining program. The interview record prepared by the rehabilitation coordinator noted that the client was currently employed earning a salary of $23,341. Department of Labor wage information subsequently obtained by the Commission and filed in the client's case file disclosed that the client was paid $46,771 in wages in calendar year 2008.

Effect: The Commission expended $890 on the client's program that could have been made available to more appropriate applicants.

Cause: The Commission does not verify wage information provided by clients.

Recommendation: The Commission should perform sufficient due diligence to determine whether a potential applicant for services is not gainfully employed prior to providing rehabilitation services to the applicant. (See Recommendation 8.)

Agency Response: "The Commission agrees with the auditors' recommendation. We are instituting an additional step in our initial interview process. If a client states at the time of initial interview that s/he is working, s/he will have to provide a statement of weekly wages from the current employer on the employer's letterhead for the prior 52 weeks. If a client states at the time of initial interview that s/he is not working, s/he will be required to attest to this fact by signing a statement indicating such. This additional step will provide the agency accurate wage information in determining an applicant's eligibility for the program."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Commission should improve its internal controls over property inventory. Our current review identified internal control deficiencies relative to property inventory control and reporting. This recommendation is repeated, as modified, to reflect current conditions. (See Recommendation 1.)

- 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. The Commission has complied with this 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. The Commission has complied with this 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. Our current testing identified several late deposits. This Recommendation is repeated. (See Recommendation 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. The Commission has complied with this recommendation.

Current Audit Recommendations:

1. **The Commission should implement procedures that ensure that annual property inventory reports reflect the cost of property in its custody at year end.**

   Comment:

   We noted that three assets reported on the Commission's annual inventory report were not in its custody as of June 30.

2. **The Commission should perform its annual internal control self-evaluation and risk assessment in accordance with the internal control guide issued by the State Comptroller.**

   Comment:

   Our review of the Commission's annual internal control self-evaluation for the fiscal year ended June 30, 2009 noted that several of the action steps in the guide were not performed and/or documented.

3. **The Commission should implement administrative controls that ensure that all new employees required to file statements of financial interest statements do so.**

   Comment:

   Our review of statement of financial interest filings disclosed that two new employees did not file statements of financial interest covering the previous calendar year.

4. **The Commission should implement administrative controls that ensure that all new employees complete the on-line ethics training program.**

   Comment:

   Our review of three personnel files noted that two employees did not complete the on-line training program.

5. **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:

   We noted several late deposits.

6. **The Commission should discontinue using the money as a change fund and deposit the money to the Workers Compensation Administration Fund.**

   Comment:

   We noted that one of the Commission's district offices maintained a cash box in the amount of $48 for the purpose of making change for photocopying charges. No one at the Commission could tell us the source of the funds.

7. **The Commission should update its disaster recovery plan to reflect its current operating systems and periodically test the plan to ensure its operational effectiveness.**

   Comment:

   Our review of the Commission's disaster recovery plan disclosed that the plan was outdated and had not been tested.

8. **The Commission should perform sufficient due diligence to determine whether a potential applicant for services is not gainfully employed prior to providing rehabilitation services to the applicant.**

   Comment:

   We noted one client received rehabilitation services while gainfully employed.

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, 2008 and 2009. 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, 2008 and 2009 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.

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.

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 would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements that we consider to be material weaknesses, as defined above.

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