

**VIRGINIA WORKERS'
COMPENSATION COMMISSION**

**REPORT ON AUDIT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of Virginia Workers' Compensation Commission for the fiscal year ended June 30,2004 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- several internal control matters that we consider reportable conditions, however, we do not consider these matters to be material weaknesses; and
- no instances of noncompliance or other matters with applicable laws and regulations tested that are required to be reported.
- The Commission has taken adequate corrective action with respect to audit findings reported in the prior year.

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OVERVIEW

The Virginia Workers' Compensation Commission ('Commission'), administers the Virginia Workers' Compensation Act and its related funds, and decides cases under the Act. Three commissioners, appointed by the General Assembly, head the agency. There are three deputy commissioners who hold evidentiary hearings throughout the state to determine rights and liabilities of parties under the Act. The Commission consists of five departments: Judicial, Claims, Finance, Information Systems and Human Resources and has 184 full-time employees.

The Commission uses the following funds to perform its responsibilities, which relate to programs created and governed by specific statutes:

The **Administrative Fund** pays the salaries and administrative expenses of the Commission. Funding comes from a 1.54 percent workers' compensation tax assessed on both self-insured employers and insurance companies for insured employers. The self-insured employers pay the tax based on a premium figure derived from their payrolls while the insurance companies pay a tax on all workers' compensation insurance premiums they receive from insured employers. The Commission sets this tax rate annually.

The **Uninsured Employer's Fund** provides benefits to injured workers of employers who failed to secure adequate workers' compensation liability coverage. Funding comes from a .25 percent (or less) workers' compensation tax assessed on self-insured employers and insurance companies for insured employers. This maximum rate of .25 percent is statutory and the Commission sets the actual tax rate annually. The fund has an average of 232 claims against it each year.

The **Criminal Injuries Compensation Fund** provides compensation to the victims of crimes, or to qualified survivors of the victim. Fines assessed and collected by the state Courts support this fund. The maximum award per claimant is \$15,000. The Commission also receives federal grants for the Criminal Injuries Compensation Fund.

The **Second Injury Fund** provides compensation for disability, medical treatment, and vocational rehabilitative services to employees who have suffered a previous loss from an industrial accident. Funding comes from a .25 percent workers' compensation tax assessed on self-insured employers and insurance companies for insured employers. This tax, if assessed, would be in addition to the tax imposed for the administration of the Commission. The total of the fund may not exceed \$250,000 during a given fiscal year or the Commission must suspend the tax until the balance is below \$125,000. Since the fund has adequate resources, the Commission has not assessed the tax since 1995.

In addition to the funds mentioned above, the Commission also adjudicates the **Virginia Birth-Related Neurological Injury Fund** by hearing cases from individuals seeking benefits from the fund and makes the final eligibility determination. A separate board operates and manages the Virginia Birth-Related Neurological Injury Fund to provide benefits to babies born in the Commonwealth with birth-related neurological injuries. Fund support comes solely through annual fees collected from doctors and hospitals that operate in the Commonwealth. Board members of the fund, appointed by the Governor, usually make the determination of the award amount and the fund manager issues the check. The Code of Virginia requires the State Corporation Commission to have periodic actuarial reports completed that assess the viability of the fund.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Over half of the agency's budget goes for processing, examining, and making rulings on claims from injured or ill workers. During calendar year 2004, the agency handled over 167,345 reported on-the-job accidents, adjudicated 11,405 cases and entered compensation awards on 26,268 claims. The Commission also provides judicial review for contested claims, and issues written decisions at each level of adjudication.

In addition, the Commission provides money to victims of violent crimes from fees imposed on convicted criminals and from the federal Crime Victim Compensation Fund. During fiscal year 2004, it paid about \$2.8 million to benefit crime victims who were disabled or suffered financial hardship because of the crimes committed against them.

Financial Information

The table below shows the 2004 original and amended appropriations for the two funding sources of the Virginia Workers' Compensation Commission: special revenue funds and federal grants. The last column shows actual special revenue collections, in addition to actual appropriations received for the federal grants. The special revenue appropriations consist of tax assessments, fines, file copies, publication sales, and expenditure recoveries. The Commission receives one federal grant from the Office of Justice Programs. This grant is for benefits such as out-of-pocket medical expenses and lost wages paid to crime victims. The increase in federal grant appropriations paid for additional benefits to crime victims.

<u>Funding source</u>	<u>Original budget</u>	<u>Amended budget</u>	<u>Funding received</u>
Special revenue funds	\$ 18,836,132	\$ 19,746,232	\$ 22,064,580
Federal grants	<u>400,000</u>	<u>706,965</u>	<u>706,965</u>
Total	<u>\$ 19,236,132</u>	<u>\$ 20,452,197</u>	<u>\$ 37,050,219</u>

The Commission administers the following two programs.

- *Temporary Income Supplement Services* – provides efforts to compensate eligible individuals who have suffered as the result of a crime
- *Employment Assistance Services* – determines eligibility, makes payments, and evaluates workers' compensation

Overall, the chart below reflects the Commission's actual expenses by program as compared to the program's original and adjusted budget. The Commission spent approximately \$19.4 million on programs during fiscal year 2004 which was less than anticipated. About 54 percent of these expenses represent payroll and benefits of employees, 28 percent represent payments for individual claims, and 12 percent support contractual services for items such as legal and auditing services, and postage. The remaining 6 percent includes other miscellaneous operating expenses including equipment charges.

<u>Program</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual Expenses</u>
Employment Assistance Services	\$ 15,781,686	\$ 16,690,786	\$ 15,963,503
Temporary Income Supplement Services	<u>3,454,446</u>	<u>3,761,411</u>	<u>3,397,067</u>
	<u>\$ 19,236,132</u>	<u>\$ 20,452,197</u>	<u>\$ 19,360,571</u>

INTERNAL CONTROL RECOMMENDATIONS

Strengthen Internal Controls over Payroll and the Certification Process

The Commission combines overtime pay with regular pay in those pay periods in which an employee receives a pay rate change. State policies recommend not including overtime pay with an individual's regular pay because it affects the employee's retirement, retirement buyback, and retirement credits. In addition, the Commission should complete the CIPPS/CARS Reconciliation during the post-certification review completed each payroll cycle in accordance with Comptroller's policies. We recommend the Commission contact the Department of Accounts on the proper way to handle these overtime transactions and they complete the CIPPS/CARS Reconciliation during the post-certification activities.

Strengthen Internal Controls over Small Purchase Charge Card

The Commission is not consistently completing log sheets when using small purchase charge cards. Auditor found two out of three instances where employees did not complete log sheets. The Comptroller requires small purchase charge card users to update purchase logs when making each purchase, so the supervisor can monitor the spending limits and purchasing activity, as well as easily reconcile the monthly charge card statements. We recommend the Compensation Commission begin using log sheets to account for small purchase charge card activity.

Strengthen Controls over Access to the Commonwealth Integrated Payroll/Personnel (CIPPS) System and Commonwealth Accounting and Reporting System (CARS)

The Commission should reevaluate who has CIPPS and CARS access. In CIPPS, there are five employees with certification access, however, not all of those employees certify payroll. In CARS, there are three employees with approval access but in the past three years, only one of them has used their approval capability. Only users who actually approve transactions should have update and approval capability. In addition, the Commission should delete employee access for those employees in positions where they do not need to have access. The Commission should make sure that the authorized signatories form includes all employees with access.

It is the responsibility of the agency to ensure that adequate internal controls exist within that agency to prevent unauthorized access to online CIPPS and CARS data. Management needs to monitor access controls to ensure the integrity of the transactions submitted through CIPPS and CARS. Appropriate system access should depend on position and responsibilities. Unnecessary access increases the risk of unauthorized changes and misuse of the systems. We recommend the Commission considered changing CIPPS and CARS access to ensure proper internal controls over systems.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts

P.O. Box 1295

Richmond, Virginia 23218

April 26, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Virginia Workers' Compensation Commission** for the fiscal year ended June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Commission's activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS, reviewed the adequacy of the Commission's internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements and reviewed corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls including controls for administering compliance with applicable laws, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles:

Revenues
Expenditures
Payroll

We gained an understanding of the overall internal controls surrounding these cycles, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws, regulations, contracts and grant agreements. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System for the cycles listed in the scope section of this report.

We noted certain matters involving internal control and its operation 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 that, in our judgment, could adversely affect Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions, entitled "Strengthen Internal Controls over Payroll and the Certification Process," "Strengthen Internal Controls over the Small Purchase Charge Card" and "Strengthen Controls over Access to the Commonwealth Integrated Payroll/Personnel (CIPPS) System and Commonwealth Accounting and Reporting System (CARS)," are described in the section entitled "Internal Control Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this letter with management at an exit conference held on May 18, 2005.

AUDITOR OF PUBLIC ACCOUNTS



COMMONWEALTH of VIRGINIA
Workers' Compensation Commission

LAWRENCE D. TARR, Chairman
VIRGINIA R. DIAMOND, Commissioner
WILLIAM L. DUDLEY, JR., Commissioner

1000 DMV Drive
Richmond, Virginia 23220

JAMES J. SZABLEWICZ
Chief Deputy Commissioner

IRIS C. PEACE, Clerk

May 20, 2005

Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Re: Response to Management Letter Comments

The Commission's responses to the Management Letter Comments are as follows.

Strengthen Internal Controls over Payroll and the Certification Process

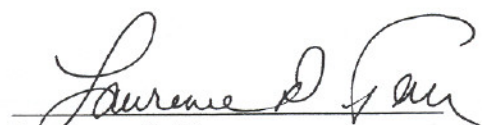
As recommended the Commission will contact the Department of Accounts and ensure payroll procedures are in compliance.

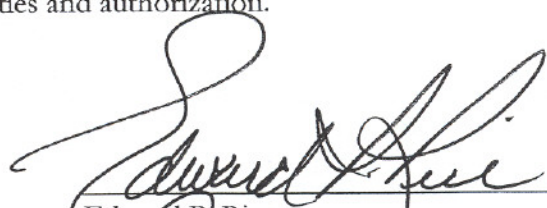
Strengthen Internal Controls over Small Purchase Charge Cards

The Commission requires purchase orders approved by appropriate management and maintained and monitored by the Small Purchase Charge Card Administrator as opposed to purchasing logs. The Commission's procedures provide for spending limit monitoring and monthly reconciliation of purchasing activity to charge card statements.

Strengthen Controls over Access to the Commonwealth Integrated payroll/Personnel (CIPPS) System and Commonwealth Accounting and Reporting System (CARS)

Systems access is updated to reflect responsibilities and authorization.


Lawrence D. Tarr
Chairman


Edward P. Rice
Comptroller

VIRGINIA WORKERS' COMPENSATION COMMISSION
Richmond, Virginia

COMMISSIONERS

Lawrence D. Tarr, Chairman

Virginia R. Diamond

William L. Dudley, Jr.,

