

DEPARTMENT OF LABOR AND INDUSTRY
PROGRAMS SELECTED FOR FISCAL YEAR
1993 STATEWIDE AUDIT

MARCH 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-10

DEPARTMENT OF LABOR AND INDUSTRY

PROGRAMS SELECTED FOR FISCAL YEAR 1993 STATEWIDE AUDIT

Public Release Date: March 23, 1994

No. 94-10

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Special Workers' Compensation Fund revenues, and Special Workers' Compensation Fund expenditures.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

- The department does not always verify the validity of a claim before making payment.
- The Special Compensation Fund's uninsured section has not verified ongoing permanent disability claims on a timely basis.
- The department paid temporary partial disability benefits without verifying the claimants' employment status.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.

296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John Lennes, Commissioner
Minnesota Department of Labor and Industry

Audit Scope

We have audited selected programs of the Department of Labor and Industry as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Department of Labor and Industry, as outlined below and as further discussed in the Introduction.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts, and grants. Our objective was to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the Department of Labor and Industry. The work conducted in the department is part of our Statewide Audit.

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- Special Workers' Compensation Fund revenues
- Special Workers' Compensation Fund expenditures

For the internal control structure categories listed, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. We tested and evaluated the design and operating effectiveness of the internal control structure as of June 1993, and other procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion.

Management Responsibilities

Management of the Department of Labor and Industry is responsible for establishing and maintaining the internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions

Our audit disclosed the conditions discussed in finding 1, involving the internal control structure of the Department of Labor and Industry. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe none of the reportable conditions described above is a material weakness.

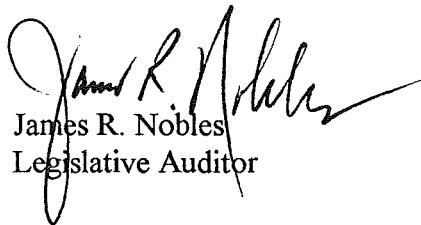
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We also noted other matters involving the internal control structure and its operation. Two items are discussed in findings 2 and 3 and the others were reported to the management of the Department of Labor and Industry at the exit conference held on March 2, 1994.

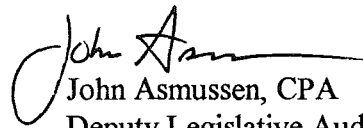
The results of our tests indicate that, with respect to the items tested, the Department of Labor and Industry complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Labor and Industry had not complied, in all material respects with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Labor and Industry. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 23, 1994.

We thank the Department of Labor and Industry staff for their cooperation during the audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 8, 1993

Report Signed On: March 17, 1994

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Mary Annala, CPA	Auditor-in-Charge
Joan Haskin, CPA	Senior Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Labor and Industry on March 2, 1994:

Leo Eide	Assistant Commissioner
Deborah Cordes	Director, Special Compensation Fund
Anina Bearrood	Accounting Director

Department of Labor and Industry

Introduction

The Department of Labor consists mainly of four areas: Workers' Compensation Regulation and Enforcement, Workers' Compensation Special Compensation Fund, Workplace Regulation and Enforcement, and General Support. The department is governed generally by Minn. Stat. Chapters 175 to 178, 181 to 184 and 326. These chapters create the agency and establish the general purposes for its financial transactions. Specifically, Minn. Stat. Chapter 176 provides legal provisions governing the workers' compensation laws. John Lennes was appointed commissioner effective January 31, 1991.

Administrative costs of the Department of Labor and Industry are financed primarily through General Fund appropriations and federal grants. Fiscal year 1993 expenditures of the department totaled \$129,392,273. The fund breakdown is shown below.

	General Fund	Federal Fund	Special Workers' Compensation Fund	Other Funds
Workers' Compensation				
Claims	\$ 0	\$ 0	\$104,866,552	\$ 0
Other	<u>3,961,796</u>	<u>2,885,067</u>	<u>17,170,584</u>	<u>508,273</u>
Total	<u>\$3,961,796</u>	<u>\$2,885,067</u>	<u>\$122,037,136</u>	<u>\$508,273</u>

Source: Statewide Accounting Estimated/Actual Receipts Report as of September 3 and the Managers' Financial Report as of September 3, 1993.

In addition, the Department of Labor and Industry collected assessment and investment revenue of approximately \$137.1 million for the Special Workers' Compensation Fund during fiscal year 1993.

Workers' compensation claims include the following expenditures:

Supplemental benefits reimbursements	\$57,150,948
Second injury benefit reimbursements	31,719,758
Uninsured benefits	8,468,075
Other	7,527,771

Current Findings and Recommendations

1. The department does not always verify the validity of a claim before making payment.

Claims administrators do not consistently obtain supporting documentation for supplemental benefit claims before reimbursing insurers. Two of fifteen sample items tested did not have evidence to support the validity of the claim. The claim form states that the insurer must attach a copy of the most recent medical report, rehabilitation report, or other evidence to the claim to document that the claim is valid and ongoing. The insurance companies or self-insured businesses pay supplemental benefits to permanently totally disabled employees. The insurer submits an annual claim to the Special Compensation Fund stating the amount of supplemental benefits paid for the year. Without documentation that the claim is valid, the Special Compensation Fund could reimburse insurers for benefits not paid. For example, the claimant could be deceased. The department should require supporting documentation before reimbursing the insurer.

Recommendation

- *The Special Compensation Fund should not reimburse insurers for supplemental benefits without documentation that the claim is valid and ongoing.*

2. The Special Compensation Fund's uninsured section has not verified the ongoing permanent disability claims on a timely basis.

The uninsured section does not monitor the validity of ongoing permanent disability claims on a timely basis. The department paid \$613,000 in permanent disability claims in fiscal year 1993. Claimants can receive the biweekly benefit checks for many years. We reviewed two files for claimants aged 77 and 82. The last investigation requested by the insured section to verify claimants status occurred in the fall of 1991. One of the claimants had his benefit check direct-deposited since 1975. Each individual received approximately \$15,400 annually without the appropriate contact to determine eligibility. There is a risk the claimants have died and others are receiving the benefit checks. The department should establish control procedures to verify ongoing eligibility at least annually.

Recommendation

- *The Special Compensation Fund's uninsured section should verify the ongoing eligibility of claimants on a timely basis.*

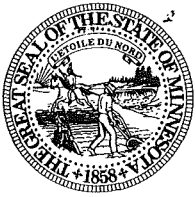
Department of Labor and Industry

3. The department paid temporary partial disability benefits without verifying the claimants employment status.

The department paid temporary partial disability benefits to some claimants without verifying current wages earned. The department placed the claimants on continuing payment status so that the claimant received a biweekly benefit check regardless of wages earned. Two of fifteen claimants tested did not submit documentation of employment or proof of wages earned; however, they continued to receive benefits. Minn. Stat. Section 176.101, subd. 2, states that temporary partial disability benefits may be paid only while the employee is employed unless unemployment is due to seasonal conditions. The statute also states that temporary partial disability benefits are equal to 66 2/3 percent of the difference between the employees weekly wage at the time of the injury and the wage currently earned in a partially disabled condition. One claimant received approximately \$12,500 in benefits from December 1991 through November 1993 without submitting any documentation. The other claimant received approximately \$62,200 in benefits from February 1990 through July 1993 without submitting documentation. When the claims administrator sent the latter claimant a notice of discontinuance of benefits in July 1993, he subsequently submitted copies of his paychecks. The claims administrator determined that the claimant was eligible for the benefits received. Without documentation of wages earned, the department cannot determine the appropriate amount of benefits

Recommendation

- *The department should obtain documentation of employment and wages earned before paying temporary partial disability benefits.*



Minnesota Department of Labor and Industry

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March 2, 1994

James Nobles
Office of the Legislative Auditor
Centennial Building
Saint Paul, Minnesota 55155

Dear Mr. Nobles:

The Special Compensation Fund has taken action on the three recommendations concerning the Fund included in the Legislative Auditor's Recommendations to the Department of Labor and Industry.

1. Supplementary Benefits - verification of eligibility to reimburse. Legislative auditors have recommended that no reimbursements be made for claims for supplementary benefits without the insurer/self-insurer including either a recent medical report (within the last year) or the activity check report with the claim. The Fund's policy is to require either the submission of the activity report and/or a current medical report before reimbursement will be processed. A letter reminding our insurers/self-insurers of this policy was sent in January.

2. Activity checks of Permanent and Totally Disabled Claimants for the uninsured section of the Special Compensation Fund - auditors recommend annual checks. This has been a policy since 1991. It has been formally included as part of the fiscal year end duties of the supervisor for the claims administrators. This will allow timely activity checks and will coincide with the year of year reserve calculations. This change was initiated immediately upon notification by the auditors in October 1993.

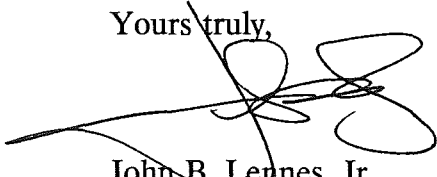
3. Automatic Temporary Partial Payments - Auditors recommend requiring a pay stub before payment is made. Since 1990, a few TPD claimants were paid automatically if the claimant was in a position where the salary and hours were very stable. Periodically the claims adjustor was to audit the stubs and make any necessary changes. The auditors felt there was not enough control and payments were made without audits happening on a regular basis.

A new policy has been instituted. All claimants receiving temporary partial disability payments have been removed from automatic payment. No check will be issued until a pay stub has been submitted to the claims manager. All affected parties were notified of the change in writing.

James Nobles
March 2, 1994
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The Legislative Auditors have done a wonderful job of working with the Fund in the audit process. They made other recommendations which we appreciated and even took time to review for our new accounting system. We thank them for their efforts on our behalf and look forward to their return next year.

Yours truly,



John B. Lennes, Jr.
Commissioner

JBL:dpt