



*Office of the Chief Internal Auditor*

## ***Audit Report***

*South Carolina Department of Transportation  
Workers Compensation Audit*

*September 18, 2014*

# ***Table of Contents***

**Office of the Chief Internal Auditor  
Audit of Workers Compensation**

September 18, 2014

**TABLE OF CONTENTS**

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	<u>Page</u>
Transmittal Letter	i
Executive Summary	iii
Audit Findings and Recommendations	1
Department Response	11

# ***Transmittal Letter***



*Office of the Chief Internal Auditor*

September 18, 2014

Commission of the South Carolina Department of Transportation

The Honorable Lawrence K. Grooms, Chairman  
South Carolina Senate Transportation Committee

The Honorable Hugh K. Leatherman, Sr., Chairman  
South Carolina Senate Finance Committee

The Honorable Phillip D. Owens, Chairman  
South Carolina House Education and Public Works Committee

The Honorable W. Brian White, Chairman  
South Carolina House Ways and Means Committee

Dear Gentlemen:

**RE: SCDOT Workers Compensation**

The Office of the Chief Internal Auditor has completed a Workers Compensation Audit in accordance with Section 57-1-360. Based on our draft report dated September 18, 2014, the Office of the Secretary of Transportation submitted its response to our office regarding the audit findings. The response is accompanied to the attached draft report.

We conducted this audit in accordance with Generally Accepted Governmental Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a responsible basis for these findings and conclusions.

We appreciate your support to our office. If you have any questions or comments regarding this report or this review process, please don't hesitate to contact me at (803)737-1151 or via email: [townespb@scdot.org](mailto:townespb@scdot.org).

Respectfully submitted,

Paul B. Townes, CPA  
Chief Internal Auditor  
Office of the Chief Internal Auditor

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## *Executive Summary*

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## **EXECUTIVE SUMMARY**

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The workers compensation program at the South Carolina Department of Transportation (SCDOT) is organizationally managed by the Office of Human Resources, and insurance is provided through the South Carolina State Accident Fund (SAF). The SAF functions as a workers compensation insurance company/risk pool for all state agencies, other government entities, and small businesses in the private sector that do not ensure through the insurance market. SAF is the leading provider of workers compensation insurance in South Carolina serving almost 700 employers and over 200,000 employees.

Positions are classified according to hazards, rates are applied, and premiums are billed quarterly based upon estimated payroll. Premium audits are conducted, just as in private insurance, for finalized payroll, and experience modification. Experience modification utilizes claims history to adjust the premiums based upon prior loss experience.

Workers compensation claims at SCDOT are handled in respective district or county offices through local management and the safety officers with first reports, forms, and any necessary immediate medical treatment. Once reported, SAF with its various partners administer the claim on a day-to-day basis just like an insurance company.

The following represents the prior 15 years of premium and experience modifications (E-mods) at SCDOT for Fiscal Years ending 1998-2013.

### **PREMIUM AMOUNTS FOR FYES 1997-2013**

<b>FYE</b>	<b>PREMIUM AMOUNT</b>	<b>EMOD</b>
1998	2,911,411.00	.65
1999	2,891,940.00	.73
2000	3,605,264.00	.81
2001	3,471,314.00	.84
2002	4,232,542.00	.95
2003	4,283,739.00	.95
2004	4,933,869.00	.95
2005	5,971,847.00	1.35
2006	8,130,250.00	1.69
2007	8,796,354.00	1.87
2008	9,586,195.00	1.99
2009	10,919,143.00	1.90
2010	10,628,634.00	1.77
2011	10,643,549.00	1.77
2012	9,263,062.00	1.63
2013	8,257,660.00	1.49

Source: *South Carolina State Accident Fund*

The following represents the claims experience for SCDOT for the prior 5 years.

<b>2009-2013 Claims, Lost Time and Pay Out Report</b>					
Year	2009	2010	2011	2012	2013
Total # of Claims	517	628	517	519	559
Claims Closed	290	491	389	291	301
DOT Lost Time	4898	3790	5415	6019	5361
Medical Pay Out	\$2,042,645.35	\$2,107,815.41	\$2,689,202.55	\$2,235,688.04	\$1,892,835.20
Indemnity Pay Out	\$3,280,549.67	\$3,220,442.72	\$3,049,330.88	\$4,145,926.21	\$2,919,844.61
Total Pay Out	\$5,323,195.02	\$5,328,258.13	\$5,738,533.43	\$6,381,614.25	\$4,812,679.81

Source: *SCDOT Workers Compensation Office*

While there is substantial cost associated with the annual premiums, the actual lost time cases and the resulting lost work along with the administrative workload in both the field offices and home office contribute to the overall costs. Our role in actually administering the workers compensation claims is limited due to the handling by SAF.

The role of SCDOT should focus more on a risk-management approach which would direct more effort in classification, premium management, and coordination with safety and loss prevention. This will involve changes in organizational structure and communication and coordination with the SAF.

Our audit work consisted primarily of reviews of classifications and premium billings, interviews, surveys, and questionnaires of SCDOT home office staff, district and county safety representatives, and field personnel with a role in workers compensation. In addition, we participated in discussions with the SAF for their input and assistance in performance of this audit. The results of our work are detailed in the applicable audit findings and recommendations.

# **AUDIT FINDINGS AND RECOMMENDATIONS**

## **ORGANIZATION**

### **Finding 1:**

The organization and management of the workers compensation program could be more effectively controlled. There is a lack of central focus on the overall risk management, encompassing all elements including classification, premium billing review and approval, claims, and safety. As mentioned, management efforts appear more directed to dealing with after the fact events, then in a pro-active overall risk management approach.

The areas of payroll, classification, and workers compensation do not effectively manage the premium review and approval process, as each independently performs reporting, review, and approval without the necessary cooperation and communication to ensure that classifications, rates, and billings are accurate. The premium billings are approved and authorized for payment by employees who have limited knowledge and information as to the payroll, classifications, rates, discounts, and adjustments that are contained in the billings from SAF. Classifications and applicable rates from the SAF are not available for review and verifications, nor are potential discounts or factors used in determining the final billing amounts.

### **Recommendation 1:**

We recommend that a more coordinated, risk management approach to our workers compensation program be implemented. This could be accomplished through the creation of a Risk Management department within the Office of Human Resources which would combine under a central management umbrella the areas of workers compensation classification, premium review and approval, claims, reporting, and employee safety and wellness. This office would coordinate with SAF in all areas of classification, rates, discounts, audits, and claims handling and would assume responsibility for premium billing review and approval for payment.

At a minimum, the premium billings should be reviewed and approved by personnel with the necessary knowledge and information to be able to determine if billings are accurate, correct rates are utilized, and proper discounts and factors are applied.

### **SCDOT Response:**

It was recommended that a Risk Management office be created within Human Resources combining workers compensation classification, premium review and approval, claims, reporting, employee safety and wellness. Regarding organization, we believe the current organization structure allows sufficient coordination of work across these areas and is the most efficient way to handle these functions.

Currently, the workers compensation category for each position is determined in the Classification/Compensation area and is entered into SCEIS by the Operations area of HR and we conduct an annual audit of the codes. However, we concur with and will adopt a risk based approach to our workers' compensation program. With this approach we will ensure rigorous and frequent reviews of those positions and classifications most likely to have claims.

We will continue to work closely with the finance department in our current and future analyses of premium billings. As a result of concerns on the cost of our workers compensation premium and the desire to find ways to reduce the premium, we agreed to formulate a plan to review the basis of our premium cost. In July, 2013, SCDOT employees from the Director of Finance, Payroll, Classification/Compensation and Workers' Compensation Offices met with the State Accident Fund to gain a better understanding of the methodology used to determine premiums and to determine what the Department could do to reduce our premium. Since premiums are based partly on the workers' compensation category for each position, we wanted to ensure that all of our positions had been coded correctly.

The State Accident Fund (SAF) sends the SCDOT Premium Contact Document in July of each year for the prior fiscal year. The Premium Contact Document is the State Accident Fund's audit of our workers' compensation coverage. Upon receipt of the Document, a review of class codes and salaries is performed by employees from Payroll, Classification /Compensation and Workers Compensation in consultation with the State Accident Fund to ensure appropriate coding of our positions. This review is conducted on an annual basis with SCDOT's response required by August 15<sup>th</sup> of each year. The State Accident Fund reviews our response and then formulates a premium for our workers' compensation coverage which is submitted to SCDOT in the *Reported Statement Document*.

**Finding 2:**

During our Employee Safety Audit of 2103, it was recommended that the Occupational Health and Safety Office (OSHO) be organizationally located within the Office of Human Resources. Management did not agree to implement at that time, but the response indicated an opportunity to revisit this issue in the future.

**Recommendation 2:**

We are again recommending that the OSHO be organizationally located within the Office of Human Resources as a part of the Risk Management department to be created in Recommendation #1 above. This should provide for more effective coordination and cooperation in the areas of workers compensation and employee safety and wellness, as well as workers compensation case review, training, and any required disciplinary actions.

**SCDOT Response:**

The Occupational Safety and Health (OSHO), organizationally located in Division of Support Services, has a much broader mission beyond workers' claims and compensation that involves compliance with federal health and safety regulations governing workplaces, including training and inspections. The Workers' Compensation Office, organizationally located under the Division of Human Resources, places an emphasis on employee benefits and ensuring employee's claims are processed appropriately. Nevertheless, the OSHO staff and Workers' Compensation Office closely coordinate,

The areas are physically located on the third floor of the Headquarters building which allows for easy access to each other. The two offices maintain a positive working relationship with open lines of communication. We will ensure continued and enhanced coordination and consultation with the offices, including joint attendance at relevant meetings, training courses and other functions to enhance the relationship and output of both offices.

In addition several wellness activities are implemented through the Human Capital Office of HR, the Benefits Office of HR and in conjunction with the Department's Nurse. The nurse, previously assigned to Human Resources, was transferred to OSHO since this position is responsible for employee hearing tests and other safety related activities which are required by OSHA.

In short, we believe the existing organizational structure is appropriate based on the mission of each Office and the current approach to coordination.

**POLICY AND PROCEDURES**

**Finding 3:**

Since the majority of the day-to-day administration of the workers compensation claim is handled within our field offices, it is important that the policies and procedures are current, comprehensive, and uniformly applied. From first reports to return to work orders, it is important that each employee's accident is handled in precisely the same prompt, precise, and fair manner. While claims management resides with SAF, SCDOT has the responsibility for proper reporting, recording within the Risk Management System (RMIS), monitoring, employee relations, and return to work accommodations.

The Workers Compensation Office is in the process of refining and distributing detailed procedures for use by our field staff. Our field surveys confirmed that these procedures are welcomed and effective. However, as evidenced by comments received, additional procedures and training may be warranted.

### **Recommendation 3:**

We recommend continued efforts both in the development of policies and procedures and in training for our field staff. We understand the training sessions are currently being scheduled and conducted.

### **SCDOT Response:**

The Workers' Compensation Office provided updated workers' compensation forms on August 13, 2013, to all personnel responsible for processing Workers' Compensation paperwork. These forms were sent to all human resource coordinators and safety officers by email. Training was provided on the use of a new Uniformed Workers' Compensation Guide and form12-C Option Explanation Guide for approximately two hundred employees between September 5, 2013 and June 5, 2014. A representative(s) from each district and county in the State received the training.

The Workers' Compensation staff will continue the annual training session. Also, we will continue to assess and incorporate feedback to improve our processes. We are considering an E-learning course for training in addition to our annual session.

### **Finding 4:**

The field office surveys indicated issues with Compendium, SAF's contracted case management and medical management firm. All first reports requiring medical attention must be directed to Compendium, who then takes over case management, schedules doctor's appointments, authorizes treatments, etc.

Some of the issues that were communicated via our surveys include slow response and follow-up, failure to send prescription authorizations, unreasonable "hold" times on the phone, not enough case workers to handle SCDOT workload, unresponsive to requests, or information resulting in employees enlisting representation by a lawyer.

While we understand that Compendium is a contracted vendor of the SAF and we have no control over that business arrangement, feedback to SAF on the performance of Compendium may help to improve the level of service to our employees.

### **Recommendation 4:**

We recommend that continual feedback be provided to SAF concerning any service issues with their staff or their case management partners, such as Compendium. This could be accomplished on a formal or informal basis, and would provide our field representatives and employees the opportunity to comment of the level of service in the handling of workers compensation claims.

### **SCDOT Response:**

We continue to work with the State Accident Fund (SAF) in communicating our experiences with CompEndium. There is on-going daily communication concerning assessment, management, scheduling, etc. The workers' compensation staff maintains direct contact with our employees regarding the quality of contracted services provided by CompEndium and we intervene when necessary. We will continue to provide feedback to State Accident Fund and CompEndium directly. We work closely with the State Accident Fund and believe they have been receptive to our concerns and addresses issues immediately.

We recently received notification of change in personnel in our CompEndium nurses. We have two nurses assigned to SCDOT. We look forward to building a working relationship with the newly assigned nurse.

## **CLASSIFICATION**

### **Finding 5:**

Classification of employees into risk classes and proper class codes is a major component of the workers compensation premiums. The SAF must "rely on agencies to provide accurate payroll and class codes" in order to bill accurate premiums. This is an area that SCDOT has made some improvement in recent years; however, appears to still need additional attention.

Approximately 85% of SCDOT employees are classified into one of the three (3) following class codes:

#5506 Street or Road Construction

#8601 Architectural or Engineering Firm

#8810 Clerical or Office Employees

It is the additional 15% of the staff that the class codes could be inaccurate and could result in premium discrepancies not only currently, but in prior years. We understand that the account is audited each year; however, the annual audit generally addresses only the true-up of the account with actual paid payroll, plus any discounts, adjustments, etc.

A detailed listing of these potential inaccurate classification codes has been provided to management. Our goal is to accurately classify SCDOT employees; however, in this process we could realize cost savings on current and future premiums. SAF has confirmed that they will review classifications up to three (3) years resulting in complete re-audits of our account, which based up our prior E-mods could have resulted in substantial overpayments of premium in prior years.

#### **Recommendation 5:**

We recommend that management, with the assistance of SAF, perform a review of the current class code classifications. This review should initially focus on the 15% of employee classifications identified by our audit as suspect. Detailed classification codes and rates should be requested from SAF in order to identify available codes and rates to be utilized.

Upon review and concurrence with SAF, positions should be re-classified with the resulting revised premiums for current billings. Based upon the results of this review, along with a review of prior premium billings, management should make a decision on a request for re-audits for the prior three (3) years from SAF.

#### **SCDOT Response:**

It was noted that 85% of our positions are classified in three class codes and that the remaining 15% could be inaccurately classified, resulting in premium discrepancies. We will make this a priority in our annual review of codes; however, we do not believe all of these are inaccurate. We base this primarily on the fact that SCDOT Human Resources met with the State Accident Fund in FY 2011- 2012, and reviewed all of our codes for each position. We corrected the codes that the review revealed to be incorrect at that time. Also, in July, 2013 SCDPT met with the State Accident Fund to discuss the methodology used to determine premiums and how we could reduce our premiums. The Department's annual review of the SCDOT Premium Contact Document in July of each year also requires a review of our workers' compensation codes to ensure accuracy. (See SCDOT's Response to Recommendation 1.)

SCDOT has the ability to request re-audits for the prior three (3) years from the State Accident Fund (SAF). An audit could increase or decrease the amount of premium paid for any of the three years. We would like to move forward with a risk-based approach, and concentrate on our current years' audit and ensure our codes are correct moving forward. Also, we will continue to ensure that we have the proper mechanisms in place for continued correct coding for all positions.

### **INTERNAL CONTROLS**

#### **Finding 6:**

Employees within the Workers Compensation Office have the authority within the South Carolina Enterprise Information System (SCEIS) to change salary for all employees within the payroll system. This is necessary when an employee with a lost-time accident requests to utilize sick or annual leave to supplement the workers compensation wages up to their regular salary amounts, which is permitted by SC Code of Laws.

#### **Recommendation 6:**

We recommend that SCEIS access to payroll changes be deleted for employees of the Workers Compensation Office. Any payroll changes should be processed through normal channels by payroll, as requested and authorized by the Workers Compensation Office.

**SCDOT Response:**

We concur with the recommendation to only allow the Payroll Office to have the authority to delete the payroll changes for employees regarding Workers' Compensation Option 3, Employee Salary Payment. The approved calculations are distributed annually by The South Carolina Budget and Control Board in coordination with The South Carolina Workers' Compensation Commission.