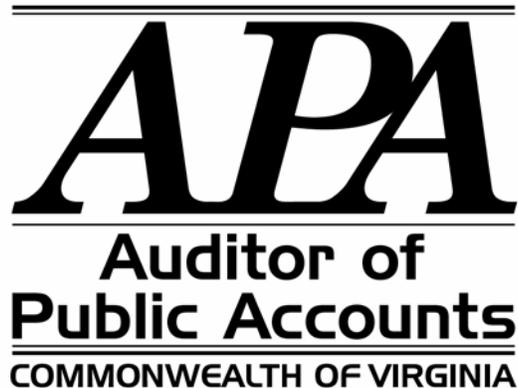


VIRGINIA WORKERS' COMPENSATION COMMISSION

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Virginia Workers' Compensation Commission for the fiscal year ended June 30, 2005, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control that we consider necessary to bring to management's attention; and
- no instances of noncompliance or other matters with applicable laws and regulations tested that are required to be reported; and
- 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 administers the Virginia Workers' Compensation Act and its related funds. Three commissioners appointed by the General Assembly head the agency. There are twenty deputy commissioners and one chief deputy commissioner, who hold evidentiary hearings throughout the Commonwealth to determine the rights and liabilities of parties under the Act. The Commission consists of five departments: Judicial, Claims, Controller's Office, Information Systems, and Human Resources and has 208 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 1.41 percent workers' compensation tax assessed on both self-insured employers and insurance companies for insured employers. Self-insured employers pay the tax based on a premium figure derived from their payrolls while 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 282 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 state courts, in addition to federal grants, support this fund. The maximum award per claimant is \$15,000.

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 making the final eligibility determination. A separate board operates and manages the 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 complete periodic actuarial reports that assess the viability of the fund.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Over half of the Commission's costs are for processing, examining, and making rulings on claims from injured or ill workers. During calendar year 2005, the Commission handled over 140,554 reported on-the-job accidents, referred 12,329 cases for adjudication, and entered compensation awards on 21,704 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 2005, it paid approximately \$2.5 million to benefit crime victims who were disabled or suffered financial hardship because of the crimes committed against them. Federal funds covered \$1.24 million of the \$2.5 million paid during the year.

Financial Information

The table below details the two funding sources of the Virginia Workers' Compensation Commission: special revenue funds and federal grants. The last column reflects actual special revenue collections, in addition to actual appropriations received for the federal grants. 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 | \$19,524,760 | \$21,531,720 | \$27,072,857 |
| Federal grants | <u>800,000</u> | <u>1,244,000</u> | <u>1,244,000</u> |
| Total | <u>\$20,324,760</u> | <u>\$22,775,720</u> | <u>\$28,316,857</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 \$20.7 million on programs during fiscal year 2005, which was less than anticipated. About 55 percent of these expenses represent payroll and benefits of employees, 25 percent represent payments for individual claims, and 13 percent support contractual services for items such as legal and auditing services and postage. The remaining seven percent includes other miscellaneous operating expenses such as equipment charges.

| <u>Program Expenses</u> | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual Expenses</u> |
|--------------------------------------|------------------------|-----------------------|------------------------|
| Employment Assistance Services | \$16,450,314 | \$18,457,274 | \$17,607,887 |
| Temporary Income Supplement Services | <u>3,874,446</u> | <u>4,318,446</u> | <u>3,084,136</u> |
| Total | <u>\$20,324,760</u> | <u>\$22,775,720</u> | <u>\$20,692,023</u> |



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 15, 2006

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

The Honorable Thomas K. Norment, Jr.
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, 2005. 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 | Payroll |
| Expenditures | Liabilities |

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. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. 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.

We discussed this report with management on May 22, 2006. 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.

AUDITOR OF PUBLIC ACCOUNTS

SW/kva

VIRGINIA WORKERS' COMPENSATION COMMISSION

COMMISSIONERS

Lawrence D. Tarr, Chairman

Virginia R. Diamond

William L. Dudley, Jr.

