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August 10, 2017

Mr. Scott Jensen
Director
Department of Labor and Training
1511 Pontiac Avenue
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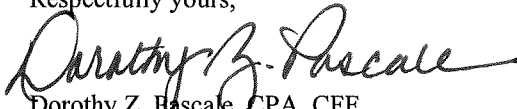
Dear Director Jensen:

The Office of Internal Audit has completed its audit of the Department of Labor and Training's Division of Injured Worker Services. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with the Rhode Island General Laws (RIGL) §35-7.1-2(a) – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL §35-7.1-10 (d), entitled Annual and interim reports, states that, "Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report." Accordingly, management submitted its response to the audit findings and recommendations on July 31, 2017, and such response is included in this report. Pursuant to this statute, the Office may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of the Division of Injured Worker Services for the cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,


Dorothy Z. Pascale, CPA, CFF
Chief

c—Jonathan Womer, Director, Office of Management and Budget
Honorable William J. Conley, Jr., Chairperson, Senate Committee on Finance
Honorable Marvin L. Abney, Chairperson, House Finance Committee
Peter Keenan, State Controller, Department of Administration

Audit Executive Summary

Why the Office of Internal Audit Did This Review

The purpose of this engagement is to review the unit's processes and determine if operations are being administered efficiently and effectively in accordance with requirements, statues, and State procedures, and with adequate controls.

Background Information

The Department of Labor and Training, Division of Injured Workers Services, monitors the workers' compensation system, ensuring that proper documents are filed to protect injured workers and employers, that claims are paid correctly, that all required employers have insurance coverage, and that insurance carriers report policy information to the Division. The Division also provides educational services, investigates fraud, and provides physical and vocational rehabilitation services for injured works at the John E. Donley Rehabilitation Center.

The Office of Internal Audit (OIA) completed its review of the operations of all the units for the Division of Injured Worker Services, which includes: education, claims and data processing, self-insurance and administrative fund, fraud and compliance, and the Donley Rehabilitation Center. The purpose of this report is to discuss recommendations to bring about greater efficiencies.

To Strengthen Controls, the Division of Workers Compensation should:

- Establish objectives and reportable performance metrics for the Division.
- Require all employees with access to workers' compensation information to sign confidentiality agreements.
- Store all forms with personally identifiable information in a secured area.
- Enforce penalty for those that fail to submit the required injury report.
- Re-evaluate the need for the fraud investigators' time spent conducting random field visits.
- Propose legislation to remove the training requirement for DLT under RIGL 42-16.1-5.
- Evaluate need for full-time employees (FTEs) within Education Unit.
- Segregate duties within Self-Insurance and Administrative Fund Unit.
- Require all Donley Center staff to utilize WCS for appointment scheduling.
- Evaluate the procedures for establishing the assessment rate and adjust the rate accordingly.

Contents

Introduction	4
Recommendations and Management’s Responses	4
Workers’ Compensation System Implementation and Information Technology Communication	4
Develop a Project Plan for Consultants.....	5
Division of Workers Compensation Organizational Units.....	6
Develop and Track Performance Metrics within the Division of Workers’ Compensation	6
Claims and Data Processing Unit.....	7
Require Employees Complete Confidentiality Agreements.....	8
Improve Process to Receive Legally Required Forms.....	8
Store Legal Forms in Secured Area	9
Load All Electronically Submitted Forms into the Workers’ Compensation System	10
Enforce Penalty for Failing to Submit Injury Forms	11
Fraud Prevention and Compliance Unit.....	11
Improve Process to Identify Uninsured Businesses	12
Utilize Workers’ Compensation System to Timely Identify Required Follow-up Action	13
Education Unit.....	13
Provide Training as Require by Rhode Island General Law §42-16.1-5	13
Utilize Staff to Maximize Productivity.....	14
Self-Insurance and Administrative Fund Unit	15
Improve Controls by Segregating Duties within Self-Insurance and Administrative Fund Unit	15
Donley Rehabilitation Center.....	16
Utilize Workers’ Compensation System for Patient Scheduling	16
Track Performance Metrics at the Donley Center	17
Financial Oversight of Administrative Fund	18
Ensure Workers’ Compensation Administrative Fund Expenditures Comply with Rhode Island General Law §28-37-1.....	18
Evaluate the Procedures for Establishing the Assessment Rate.....	19
Objective and Scope.....	20
Methodology.....	20
Appendix A	21
Telephone Records Data	21

Introduction

The Department of Labor and Training (DLT) Division of Workers Compensation (WC or the Division) monitors the workers' compensation system (WCS), ensuring that proper documents are filed to protect injured workers and employers, that claims are paid correctly, that all required employers have insurance coverage and that insurance carriers report policy information to the Division. The Division also provides educational services, investigates fraud and provides physical and vocational rehabilitation services for injured workers at the John E. Donley Rehabilitation Center.

The Office of Internal Audit (OIA) completed its review of the operations of all the units of WC, which includes the following:

- Claims and Data Processing
- Fraud Prevention and Compliance
- Education
- Self-Insurance and Administrative Fund
- Donley Rehabilitation Center¹

This report identifies several areas of process improvements to gain efficiencies in operations and improve information available to management.

Recommendations and Management's Responses

Workers' Compensation System Implementation and Information Technology Communication

The Division contracted with a vendor to implement the WCS. Work began in late 2008, and the vendor continued to receive payments through 2014. After implementation, the WCS was not operating at capacity that met the needs of the Division. Some of the system issues noted by staff included: coding, speed and report tracking. Therefore, the Division utilized a State of Rhode Island Master Price Agreement (MPA)² for computer technical support services to hire a consultant to correct the WCS.

The Consulting firm hired has been working on the WCS fixes for over three years for a total cost of approximately \$997,000. This combined with the cost to deploy the system under the initial vendor contract

¹ On June 30, 2017, Governor Gina Raimondo signed legislation to change the name of the Donley Rehabilitation Center to the Chief Judge Robert F. Arrigan Rehabilitation Center.

² Master Price Agreements (MPAs) cover requirements for broad categories of items for a period of time on a state-wide basis.

cost approximately \$2.8 million. Several of the issues identified throughout this report are the result of an inadequate and incomplete WCS.

Develop a Project Plan for Consultants

The Division of WC should be able to utilize the WCS to its maximum capacity, including being able to create and run reporting metrics from the information input into the system. As noted previously, a consulting firm was engaged via a MPA for computer technical support services. The MPA User Guide states that all engagements must have clearly defined deliverables, and milestones and must be approved by Division of Information Technology (DoIT) Project Review Committee. The Division relies heavily upon this consulting firm for system management and to address the system issues. These issues are casually communicated directly from management to the consultants without informing DoIT and without being documented in a formal change request.

However, without a project plan in place that details the deliverables, change requests and milestones, there is a risk that funds may be wasted on unnecessary consultant services and there may be missed opportunities to streamline system fixes.

Recommendation to Department of Labor and Training:

1. Coordinate with DoIT to improve oversight over the consulting firm and implement a change request system to track the deliverables.

Management's Response DLT:

We agree that DLT needs to develop an oversight plan regarding the work that Stonewall Solutions (SWS) is doing here at the agency. This plan would provide a mechanism for DLT and DoIT to establish clear objectives, timelines and deliverables.

SWS was brought in about three years ago to help DLT mitigate several challenges/bugs that were present in a newly developed Workers' Compensation System (WCS). Initially they conducted a full and thorough assessment of the system. That assessment identified issues that needed to be abated for the system to work as planned. They then worked with DLT/DoIT to rate the importance of those fixes and started on a path to make the necessary changes. Since that time they've been working on those agreed upon fixes while also providing daily maintenance of the system. Unfortunately, infrastructure challenges delayed some of the enhancements recommended in the assessment.

We have provided the Office of Internal Audit a listing of issues and enhancements that Stonewall has been working on.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: 2/1/2018

Recommendation to Division of Information Technology:

2. Develop a timeline and objectives for consultants to complete WCS corrections.

Management's Response DoIT:

We agree that will work with WCS to clearly define criteria that are needed to establish corrections to the WCS systems. A clear timeline and objectives will be developed to coordinate activities with both state personnel and Stonewall Solutions (SWS). Weekly status reports with monthly status meetings will be conducted with SWS to ensure that activities are completed within a clearly defined timeline. Transition of SWS weekly timesheets to DoIT management will be established so that all billable hours will be accounted for and stay within the timeline, criteria and objectives.

Based on the criteria and duration of the timeline, DoIT will post an RFP to procure long term contracted services for this system so larger and more complex enhancements can be considered over time. DoIT will begin a RFP starting in August/September for award prior to January 2018 (if needed).

Responsible Party: Michael Aubin, DOIT Tech Support Manager
Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: 01/2018

Division of Workers Compensation Organizational Units

As noted above, the Division of Workers' Compensation includes the Claims and Data Processing Unit, Self-Insurance and Administrative Fund Unit, Education Unit and the Fraud and Compliance Units. Issues identified relating to these units will be discussed below.

Develop and Track Performance Metrics within the Division of Workers' Compensation

To meet its mission and monitor progress, State divisions must have a means to establish objectives and then track and report on such. The Committee for Sponsoring Organizations issued the *Internal Control – Integrated Framework* to assist management in evaluating control risks with the objective of reducing them to acceptable levels. One of the components of the Internal Control Framework is Risk Assessment. The first principle of Risk Assessment is to specify suitable objectives. This means that an organization should specify "objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives."³

The Division of WC has not established specific objectives or performance metrics to judge its efficiency and effectiveness of operations and, therefore, reportable metrics are not possible. Management has not developed the appropriate reports to monitor the effectiveness of staff and operations, and the reports that are available are not written properly to provide complete and accurate information. This can result in the continuation of ineffective processes and also requires significant manual manipulation of data in order to generate reports requested of the unit.

³ <http://www.coso.org/Documents/COSO-ICIF-11X17-Cube-Graphic.pdf>

Recommendation:

3. Establish objectives and reportable performance metrics for the Division of WC.

Management's Response:

We agree that we need to establish objectives and reportable performance metrics for the Division. We are working with SWS to ensure that the WCS includes the requisite data for tracking the established metrics and is capable of generating usable reports to reflect the data.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: 01/2018

Recommendation:

4. Work with the consultants to ensure the WCS includes the requisite data for tracking the established metrics and is capable of generating usable reports to reflect the data.

Management's Response:

These reports were recognized in the assessment but have been delayed due to delays in moving WCS to upgraded servers and software. These metrics and reports are a priority and the work necessary to get them incorporated will happen immediately now that the necessary infrastructure is in place to do so.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: 11/1/2017

Claims and Data Processing Unit

The Claims and Data Processing Unit (Claims Unit) retains all the records provided by the insurance carriers relating to workplace injuries in the State.

Claims adjustors are required to submit documents and information to the Claims Unit to be docketed for the Workers' Compensation Court and for the Division of Injured Workers' Services to collect and analyze data about workplace injuries in the State. The First Report of Injury (FROI) and Subsequent Report of Injury (SROI) are submitted through an Electronic Data Interchange (EDI)⁴. Additionally, claims adjustors are

⁴ After March 1, 2015, First Reports of Injury (FROI) and Subsequent Reports of Injury (SROI) must be reported electronically. An employer must report injuries to his insurance company, and the insurance company will send the First Report of Injury to RI DLT on behalf of the employer.

required to submit legal forms⁵ in relation to the status of the injured worker's claim. These forms are mailed to the unit and scanned into the WCS, where they are docketed.

The following issues relate to the processes within the Claims Unit.

Require Employees Complete Confidentiality Agreements

The Rhode Island General Law (RIGL) §28-32-5, relating to the reporting of injuries, states

No report, or part of a copy of a report, shall be open to the public, or shall any of its contents be disclosed in any manner, or be permitted to become known, by any officer or employee of the state or other person having access to it...

The WC employees are not currently required to sign a confidentiality agreement to acknowledge this law and their adherence to it.⁶ Without signing confidentiality agreements, employees may be unaware of the law and may disclose confidential information.

Recommendation:

5. Require employees with access to Workers' Compensation information to acknowledge their duty to keep information confidential.

Management's Response:

We agree with the requirement for all employees with access to Workers' Compensation information to acknowledge their duty to keep information confidential by signing confidentiality agreements. Such agreements are already in place for all employees of the Fraud and Compliance Unit and all employees and contractors of the Arrigan Rehabilitation Center. The remaining 9 employees have signed the agreements.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: Completed

Improve Process to Receive Legally Required Forms

The Governor has implemented a Lean Process Improvement Initiative across the State agencies, in an effort to eliminate waste and backlogs and to increase agency efficiency.

The current process in place requires that the legal forms be mailed to the Division of WC. A compensation claims analyst then sorts the forms by type, counts the number of forms, scans the forms in a batch by type and compares the number of forms scanned to the number counted. The forms are then distributed to the analysts' queues in the WCS where they are linked to a claim. This process is inefficient and could potentially

⁵ The most frequently used and submitted legal documents filed on paper include: Non-prejudicial Agreement, Memorandum of Agreement, Mutual Agreement, Wage Statement, Dependency Form, Termination of Benefits, Suspension Agreement and Receipt.

⁶ The only unit within WC that requires a signed confidentiality agreement is the Fraud Unit.

result in physical copies being lost. Also, these forms have a 50-year retention schedule which costs the Division approximately \$18,000 annually in document storage fees.

Recommendation:

6. Develop a means to receive forms electronically to create a more efficient process and align with the Governor's Lean Process Improvement Initiative.

Management's Response:

We currently receive the first and subsequent reports of injury electronically. These reports do indicate when some of the other legal forms are filed. These standardized forms are utilized across the country and are submitted by insurance companies to the states. Other forms are unique to each state and there are no standardized models. Insurers would be reluctant to adopt such a costly proposal.

We will explore converting to electronic submission but because they are legal forms and are governed by statutes this would have to be discussed by the Workers' Compensation Advisory Council and the Workers' Compensation Court prior to making any changes.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: N/A

Store Legal Forms in Secured Area

The legal forms mailed to the Claims Unit include the personal information of the claimant and the Federal Employer Identification Number of the employer. The Division of WC should take reasonable steps to protect personal information from misuse, loss and unauthorized access. Currently, there is a backlog of forms to be scanned into the WCS and these forms are stored in an open area until the compensation claims analyst can scan the forms into WCS.

Leaving personal information of individuals and tax information of businesses provided on these forms out in the open make the information more susceptible to misuse and theft.

Recommendation:

7. Scan forms immediately into the WCS and store in a secured area until they can be sent to the document storage facility.

Management's Response:

We agree that any forms should be stored in a secured area until they can be sent to the document storage facility. We will take the necessary steps to ensure this is addressed.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: 11/11/2017

Recommendation:

8. Explore opportunity to convert to digital records and modify record retention policy.

Management's Response:

We disagree with this finding. The records retention policy is set at 50 years for some of our forms because they must be available even after someone retires to memorialize the work-related injury should the records be subpoenaed. All our records are digital but the State Archivist requires us to physically store the records off site.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: N/A

Load All Electronically Submitted Forms into the Workers' Compensation System

As will be discussed below, some information is submitted electronically through Electronic Data Interchange (EDI)⁷ to the Claims Unit. The FROI form automatically feeds into the WCS from EDI and populates certain system fields; however, the SROI form⁸, still does not feed into the WCS.

When the new WCS and EDI was implemented, the necessary work to bring the SROI forms into the WCS was not completed. Therefore, this information is not captured within the WCS, and claims analysts are not able to compare the legal documents to electronically submitted information.

Recommendation:

9. Ensure all information submitted in the EDI system is loaded into the WCS and automatically populates system fields.

Management's Response:

We agree all information submitted in the EDI system should be loaded into the WCS and automatically populate system fields. The first report already does this and SWS is working on getting the subsequent reports to automatically populate system fields. Like other deliverables, this was delayed because of the delay in moving to upgraded servers and software. We are ready to begin testing this enhancement this month. All insurers and self-insured employers electronically submit these reports to us.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: 2/1/2018

⁷ Electronic Data Interchange is the electronic interchange of business information using a standardized format; a process which allows one company to send information to another company electronically rather than with paper.

⁸ A Subsequent Report of Injury (SROI) is required when benefits start, stop, or change, when a lump-sum payment is made, when a claim closes and twice yearly while a claim is open.

Enforce Penalty for Failing to Submit Injury Forms

RIGL § 28-32-1--**Reports required from employers**, requires that for any injury that is not fatal, "the report shall be made within ten (10) days after the injury..." RIGL § 28-32-2--**Penalty for failure to report**, states that, "Any employer who refuses or neglects to make the reports required...may be assessed a penalty of two hundred fifty dollars (\$250) by the director for each refusal or neglect to make a report."

Currently, the Division of WC is not assessing a penalty to those employers that fail to submit the required injury reports within ten (10) days of the injury. Without the application of a penalty, employers and insurance carriers may not be appropriately reporting workplace injuries. This could create delays for an employee who later files a claim or needs information regarding their case. This could also skew the data that is collected and reported on for workplace injuries that occur within the State if the injury is never reported.

Recommendation:

10. Identify and enforce the penalty to those that fail to submit or are not timely submitting the required injury report.

Management's Response:

We agree with this recommendation and have already implemented identifying and penalizing those that fail to submit or are not timely submitting the required injury report.

Responsible Party: Julie Tamuleviz, Chief Investigator Fraud and Compliance Unit

Anticipated Completion Date: Completed

Fraud Prevention and Compliance Unit

The Fraud Prevention and Compliance Unit is responsible for investigating all types of Workers' Compensation fraud; however, the majority of the investigations revolve around employer fraud and compliance. The unit maintains a fraud hotline and verifies employers renewed their insurance when the term end is near. Policies are reported by the insurance carriers to the National Council on Compensation Insurance (NCCI), who notifies the Division of WC when a policy has lapsed or has been cancelled. The composition of the investigation caseload is as follows:

- 5% of cases are from random inspections and tips from the public
- 95% of cases are from NCCI
 - 62% of NCCI cases are closed by prescreeners⁹ due to false positives in the reporting
 - 33% of NCCI cases are referred to investigators

⁹ A prescreener is the term used to refer to the Implementation Aides employed within the Fraud Prevention and Compliance Unit.

Improve Process to Identify Uninsured Businesses

The process to identify uninsured businesses includes two days per week per investigator conducting random inspections of businesses operating in the investigators assigned jurisdiction. Management believes that conducting these random inspections is the best way to identify businesses that are operating under the radar of the State and would likely have other labor standards violations (e.g, not filing taxes or filing inaccurate taxes, not paying unemployment insurance, etc.). They select an area of their jurisdiction and conduct inspections of the businesses in the area to obtain proof they have coverage. If they do not have proof, a case is opened.¹⁰ For every eleven (11) hours in the field¹¹, one entity is flagged as potentially not carrying insurance.

Only 17.5% of the total entities penalized in Fiscal Year (FY) 2017 were identified through these random inspections. The Fraud Unit applied \$7,340 (12% of the total) in penalties to entities identified as not having insurance during random inspections in FY 2017. However, the Division of WC paid \$4,271 in auto maintenance for the use of State vehicles in order to conduct these inspections.

Cost to benefit considerations should be accounted for when determining the most beneficial deployment of staff resources. The Fraud Unit's current process to identify uninsured businesses through random inspections on "field days" is not an efficient or effective method.

Recommendation:

11. Re-evaluate the need for the current assignment of staff to the field for random inspections and determine if a more cost-effective data driven method is feasible.

Management's Response:

We disagree, investigators spend the vast majority of their time in the office. However, there is a need for the investigators to have a presence in the community. Generally, they go in the field in the course of an investigation or to issue a Stop Work Order. At these times, they will visit other businesses. While there may not be a direct financial return on much or most of our investigatory work, that does not indicate that the work is without merit. In fact, much of the work involved is aimed at encouraging compliance. Should we determine that more employers have come into compliance because of our presence in the community or "on the road" then we've been successful.

Responsible Party: Julie Tamuleviz, Chief Investigator Fraud and Compliance Unit

Anticipated Completion Date: N/A

¹⁰ Investigators do not open cases for random inspections in which the business was able to prove they have coverage. Therefore, the OIA was not able to determine the total number of random inspections conducted; the OIA was only able to determine the number of cases opened as a result of a random inspection.

¹¹ The OIA determined the number of weeks each investigator was employed for, assumed two (2) days in the field for six (6) hours a day.

Utilize Workers' Compensation System to Timely Identify Required Follow-up Action

The Fraud Prevention and Compliance Unit can send an employer a "45-day letter" asking them to provide information regarding their Worker's Compensation Insurance policy, and the employer has 45 days to respond to this letter. After the 45th day the investigator can decide to take further action, beginning the process for an administrative hearing, where a penalty can be assessed for lack of coverage. The OIA found 98 instances in which the 45-day letter was sent and there was no follow-up to the letter.

The fraud investigator can indicate in the WCS when follow-up is required; however, employees are not consistently utilizing this system capability, and as evidenced above, not always timely following up on the 45-day letter. As a result, employers are not providing proof of insurance, and investigators are not taking action to ensure compliance leaving employees at risk if employers do not have coverage.

Recommendation:

12. Use the follow-up date field to quickly identify cases that require additional work, or a field visit, if the employer has not responded to a letter notification.

Management's Response:

We agree, this field was recently added by SWS and the Unit Chief and investigators use it to identify cases that require additional work or field visit.

Responsible Party: Julie Tamuleviz, Chief Investigator Fraud and Compliance Unit

Anticipated Completion Date: Completed

Education Unit

The Education Unit was created under RIGL § 42-16.1-5 to provide training services on workers' compensation related topics. Additionally, the unit answers questions for insurers, adjustors, claimants, employers and lawyers primarily via phone calls. It is staffed with two education unit representatives.

Provide Training as Required by Rhode Island General Law §42-16.1-5

RIGL § 42-16.1-5 states the Education Unit:

...shall provide, in convenient locations throughout the state, education services to employees and employers concerning the prevention of occupational diseases and injuries, training for non-management employees and employers in workers' compensation procedures, and substantive rights and information to employers and employees concerning known and suspected workplace hazards.

The Education Unit has not provided any training during FY 2017. Further, insurance providers offer similar training opportunities for employees as those required by RIGL.

Recommendation:

13. Propose legislation to remove the training requirement from DLT.

Management's Response:

Policy changes in Workers' Compensation are primarily developed by the Workers' Compensation Advisory Council (WCAC), a legislatively established council that advises the governor and the general assembly on the administration of Workers' Compensation. The WCAC is comprised of representatives from business, labor, DLT, DBR, DOA, the Workers' Compensation Court and the general public. This diverse group is recognized by the general assembly as the authority on Workers' Compensation in Rhode Island- all potential legislative changes are first considered and approved by this body.

While DLT will not plan to introduce legislation to remove the training requirement in the next legislative session, we will plan to introduce this topic of discussion at a future meeting of the WCAC.

Responsible Party: Matthew Weldon, Assistant Director for Administrative Services
Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: Winter, 2018

Utilize Staff to Maximize Productivity

The Education Unit represents that their primary responsibility is to answer questions via phone calls. The phone data for the period beginning May 1, 2016, through April 2, 2017, showed that 3,762 calls were received and 1,869 were answered.¹² This averages to 8 phone calls per day with an average length of two minutes and twenty-two seconds per call, or 17 minutes per day.

The two staff assigned to the Education Unit are not fully utilized through phone call coverages and trainings, as previously discussed. The staff should be assigned in a manner to maximize productivity and thus increase efficiency of operations.

Recommendation:

14. Evaluate the full-time equivalent (FTE) requirement in conjunction with the previous recommendation.

Management's Response:

We have evaluated the FTE requirements for the Education Unit. The two FTEs are necessary at this time in order to carry out the duties associated with these positions. Some of the duties assigned to this unit include: processing forms, providing information about Workers' Compensation to filers and processing all subpoenas and record requests. In the coming year, they will be providing training to employers and medical providers; they have not done this recently due to retirements in the unit.

¹² When the DLT Workers' Compensation number is dialed, it brings the caller to a menu with various prompts. prompt 0 provides direct general assistance and prompt 1 is the Education Unit. The OIA used these two prompts in its analysis since they are the calls the Education Unit would answer.

The Department does not concur regarding the number of calls handled by these employees on a daily basis. The assertion in the audit is that they take a couple of calls per day. That is simply not true. It's our belief that the information conveyed in the report was based on how many calls were routed by the telephone system when customers dial in and select from automated options to connect with someone in Workers' Compensation. In addition to those calls, the unit receives calls that are transferred from colleagues in Workers' Compensation, the Arrigan Rehabilitation Center or other units within the department. Further, in the coming weeks they will also be taking increased phone calls from employees as we will resume sending out a query letter to injured workers for whom first reports of injury are filed.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: Completed

Auditor Response - Although we agree with the statement that the data from CMS does not include the direct transfer to a specific extension number, this additional information does not materially change the finding. See Appendix A for telephone records usage data.

Self-Insurance and Administrative Fund Unit

The Self-Insurance and Administrative Fund Unit reviews applications for self-insured entities, determines the assessment rate and approves payments out of the administrative fund.¹³

Improve Controls by Segregating Duties within Self-Insurance and Administrative Fund Unit

Segregation of duties within a process is intended to disperse the critical functions to mitigate error and fraud. For the assessment rate process, one employee is responsible for both verifying the premiums paid to carriers and sending bills for the amount the carriers owe based on the verified premium amount. This employee is also responsible for reviewing the information submitted by self-insured entities and comparing it to historical submissions and billing entities the amount owed based on this information. This employee also receives all of the payments.

With only one employee handling all of these key responsibilities, there is an increased risk of error or fraud. Mistakes could be made in the billing process or in the collection of payments and go undetected.

¹³ RIGL §28-37-1 states "There is established in the department of labor and training a special account known as the workers' compensation administrative account, an account within the general fund. This account, referred to as the "workers' compensation administrative account", shall consist of payments made to it as provided in this chapter, or penalties paid pursuant to this chapter, and of all other moneys paid into and received by the fund, of property and securities acquired by and through the use of moneys belonging to the fund, and of interest earned upon the moneys belonging to the fund."

Recommendation:

15. Realign duties amongst staff to separate the responsibility of validating reported information, calculating bill and collecting payment.

Management's Response:

We will realign duties amongst staff to separate the responsibility of validating reported information, calculating bills and collecting payments.

Responsible Party: Matt Carey, Assistant Director for Workers' Compensation

Anticipated Completion Date: 7/1/2018

Donley Rehabilitation Center

The Donley Center was created by RIGL §28-38-19 and acts as a separate entity from the Division of Workers' Compensation. It does, however, report to the same Chief Administrator of Workers' Compensation and uses the same WCS. The Donley Center offers physical therapy, occupational therapy, vocational training and psychiatric counseling. The operations of the Donley Center are unique to the State of Rhode Island, and no other State offers the same extent of multidisciplinary services in one location.

The data available in the WCS on the Donley Center operations was limited. Therefore, the OIA performed an analysis using daily patient sign in sheets for the period June 1, 2016, through May 22, 2017. This showed there were 23 staff members who were responsible for an average of 49 patients daily. This data, however, did not show how long these patients were receiving treatment and how many staff members they had appointments with. This number of patients seen versus the full-time equivalent (FTE) count appears unbalanced; however, due to the limited data, the OIA was unable to determine an accurate staff utilization ratio. Refer to the below issues identified during the review of Donley Center operations.

Utilize Workers' Compensation System for Patient Scheduling

The WCS has the ability to schedule appointments for all the patients with staff members. This will avoid conflicts in scheduling and provide management with the ability to see the workload of each staff member.

When the WCS was deployed, it did not allow staff to schedule multiple patients during the same time slot, even though they can work with up to four patients. Thus, the employees and contractors for the Donley Center began to track their appointment schedule on spreadsheets maintained outside the system.

Due to frustration with the system, employees continue to utilize offline spreadsheets to schedule patient appointments despite the scheduling restrictions being recently lifted. This results in an inefficient, manual process for staff scheduling and prohibits management from assessing staff utilization and patient attendance. The manual scheduling further increases the risk of overbooking a patient or missing appointments.

Recommendations:

- 16. Coordinate with the consulting firm to develop an efficient scheduling method in the WCS.
- 17. Require all staff, employees and consultants to utilize the WCS for appointment scheduling.

Management's Response:

We are coordinating with SWS to develop an efficient scheduling method in the WCS. We will be testing this by 9/1/2017. All staff including contractors will be required to utilize WCS for scheduling.

Responsible Party: Harriet Connor, Assistant Administrator Arrigan Center

Anticipated Completion Date: 2/1/2018

Track Performance Metrics at the Donley Center

Performance metrics allow management to make decisions regarding staffing, scheduling, assignments, etc. These metrics should be established based on management's objectives and periodically tracked to provide the requisite data and information. Management at the Donley Center does not currently have the data available to report on such information.

Generating accurate performance metrics requires access to reliable data; and as discussed above, the staff does not use the electronic scheduling in the WCS, and the offline schedule does not provide historical data.¹⁴ Further, if a patient is referred for physical therapy or occupational therapy and later begins vocational training, this is not recorded in the system by the Patient Care Coordinator or the vocational trainers.

Management cannot reliably generate accurate reports to show an employees' caseload, appointment schedule, total appointments for the year and which services are most used. Previously, the Donley Center had patients scan into and out of each of their appointments using an identification card so that management could see that patients were attending their appointments and the duration of the appointments. Currently, this scanning capability is not working. If the Donley Center can utilize this technology again, management would be able to develop more sophisticated metrics to analyze.

Recommendation:

- 18. Develop and track performance metrics.

Management's Response:

We are in the process of developing and tracking performance metrics for the Arrigan Center.

¹⁴ It is a fixed schedule that staff delete patients from as they are discharged and add new patients to as they are admitted.

Responsible Party: Harriet Connor, Assistant Administrator Arrigan Center

Anticipated Completion Date: 11/1/2018

Recommendation:

19. Implement the patient appointment scanning function to provide additional data on actual attendance and the duration of patient appointments.

Management's Response:

We are in process of implementing the patient appointment scanning function to provide additional data on actual attendance and the duration of patient appointments. DoIT has put SWS in touch with the company that manufactures the Trax scanners used in the NetworkRI offices. They are in process of securing one of the devices to test it with WCS.

Responsible Party: Harriet Connor, Assistant Administrator Arrigan Center

Anticipated Completion Date: 7/1/2018

Financial Oversight of Administrative Fund

The Self Insurance and Administrative Fund unit is responsible for approving payments related to claims paid from the Administrative Fund. However, DLT Central Management is responsible for the budgetary and accounting functions relating to the Administrative Fund. These functions would include allocating overhead costs relating to operating the Injured Workers Service, projecting the expenditures out of the Administrative Fund and determining the assessment rate that should be charged to insurance carrier and self-insured entities to cover these expenditures.¹⁵

Ensure Workers' Compensation Administrative Fund Expenditures Comply with Rhode Island General Law §28-37-1

RIGL §28-37-1(b) Establishment- Sources—Administration, specifies the purposes for which the workers' compensation administrative account fund shall be used. Review of expenditures from the fund for FY 2017 showed that DLT spent approximately \$250,000 on roof repair for the Center General Building.

DLT Financial Management allocated the cost of the roof repair over all DLT divisions, including Injured Worker Services, which is not allowable under RIGL §28-37-1. Although it is reasonable to allocate a building expense across the occupying divisions, the restrictions on this account per RIGL §28-37-1 do not allow for such expenditures.

¹⁵ The Administrative Fund unit obtains information regarding the total amount of insurance policy premiums paid to carriers in the previous year and determines how much the self-insured entities would have paid in premiums. DLT Central Management uses this amount and the amount of expenditures to calculate the rate that will cover the expenditures.

Recommendation:

20. Ensure that all expenditures from the Administrative Fund meet the purpose of the fund specified in RIGL §28-37-1.

Management's Response:

RIGL §28-37-1 (4) grants the department the authority to use funds from the Workers' Compensation Administrative Fund" ...for all expenditures incurred in administrating its responsibilities under Chapters 29-38 of this title."

DLT believes that this provision allows the department to charge the Administrative Fund for items that are not expressly mentioned in the act, including but not limited to: supplies and equipment, cost sharing for operating expenses, etc., so long as they are required for the department to carry out its responsibilities as prescribed by the law. Building expenses, like roof repairs/replacement, are necessary in order to have a safe and secure workspace for the Workers' Compensation staff. As such, the charges are warranted and permissible.

Responsible Party: Matthew Weldon, Assistant Director for Administrative Services
Sean Fontes, Executive Counsel
Diane Gagne, CFO

Anticipated Completion Date: N/A

Evaluate the Procedures for Establishing the Assessment Rate
RIGL §28-37-13(c) **Payments into fund by insurers and employers** states:

The director is obligated to determine on or before July 15 of each year, after taking into account projected expenditures for the current fiscal year and for the next fiscal year, what percentage of return, referred to as the "assessment", is needed to provide sufficient funds, in conjunction with appropriations from the general fund, if any, to fulfill the purposes enumerated in 28-37-1 (b) and shall certify this assessment to the governor and general assembly.

DLT Financial Management estimates that the balance of the fund is in excess of \$4 million for FY 17.¹⁶ Management has not been performing an adequate projection of revenues and expenditures to set an appropriate assessment rate, and therefore, the balance has grown over the last two fiscal years. This results in insurance companies and self-insured entities paying a higher assessment rate than the expenditures would require.

Recommendation:

21. Evaluate the procedures for establishing the assessment rate and adjust rate accordingly.

¹⁶Approximately 25% of estimated expenditures.

Management’s Response:

DLT management meticulously monitors the fund balance in the Worker’s Compensation Administrative Fund and recognizes that it has grown over the last few years. In response to the growth in the fund balance, management has steadily decreased the assessment rate for the last four years. The procedures currently in place include an annual in-depth analysis of historical and projected revenues and expenditures and forecasts for the ending fund balance using several different assessment rate scenarios. Worker’s Compensation Upper Management, the Chief Financial Officer, the Assistant Director for Administrative Services, and the DLT Director meet to discuss the financial data and to decide upon the most appropriate assessment rate that will ensure sufficient reserves are available to fulfill the purposes of the Fund and to maintain financial stability in the account. It is the opinion of DLT management that the current procedures are sufficient for establishing the assessment rate.

Responsible Party: Denise Paquet, Administrator Financial Management

Anticipated Completion Date: N/A

Objective and Scope

The Office of Internal Audit (OIA) conducted an audit of the Division of Workers Compensation. The purpose of the engagement was to determine if operations are being administered efficiently and effectively in accordance with requirements, statutes, and state procedures.

Methodology

As part of our audit work, we gained an understanding of DLT’s Division of Injured Workers Services functions and associated operational risks. To address our audit objective, we performed the following:

- Interviewed personnel, including management and staff.
- Reviewed established policies and procedures.
- Reviewed Rhode Island General Laws applicable to the organization’s operations.
- Developed flowcharts of processes and identified points of inefficiency
- Reviewed and analyzed WCS reports

Appendix A

Telephone Records Data

The amount of time spent answering the prompt 1 (education unit/general questions), Prompt 0 (additional information), and Prompt 0 + Prompt 1 was estimated based from the CMS reports received from FTG Technology (telephone service company). The calculation for the estimation of the average time per day spent on phone calls is the average amount of calls for the year (May 2016-April 2017) multiplied by the average time stated in the file. The average amount of calls for the year was calculated with the total calls answered by the Education Unit divided by the amount of business days (estimated at 251 days) in the year.

Prompt 1

Summary of CMS Data:

Inbound Calls	ACD Calls	Avg ACD Time	Aban Calls	Avg Aban Time	Forced Disc Calls	Flow Out
Totals	2301	1165	2:40	192	1:32	0 944

Office of Internal Audit Calculation:

Calculated Average of calls per business day	5
Avg time from Feb-Apr	2:40
Avg time per day on phone calls	13.33

Prompt 0

Summary of CMS Data:

Inbound Calls	ACD Calls	Avg ACD Time	Aban Calls	Avg Aban Time	Forced Disc Calls	Flow Out
Totals	1461	704	1:47	113	1:11	0 644

Office of Internal Audit Calculation:

Calculated Average of calls per business day	3
Avg time from Feb-Apr	1:47
Avg time per day on phone calls	5:35

Prompt 0 + 1

Office of Internal Audit Calculation:

Calculated Average of calls per business day	8
Avg time from Feb-Apr	2:22
Avg time per day on phone calls	17:16