

C98F00
Workers' Compensation Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$13,282	\$13,639	\$13,958	\$318	2.3%
Contingent & Back of Bill Reductions	0	0	-265	-265	
Adjusted Special Fund	\$13,282	\$13,639	\$13,693	\$54	0.4%
Reimbursable Fund	30	30	30	0	
Adjusted Reimbursable Fund	\$30	\$30	\$30	\$0	0.0%
Adjusted Grand Total	\$13,312	\$13,670	\$13,723	\$54	0.4%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance grows by \$54,000 over the fiscal 2010 working appropriation due to increased retirement contributions that are partially offset by decreased spending on computer software purchases and maintenance expenses.

Personnel Data

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>
Regular Positions	124.00	124.00	124.00	0.00
Contractual FTEs	<u>8.02</u>	<u>11.25</u>	<u>11.25</u>	<u>0.00</u>
Total Personnel	132.02	135.25	135.25	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	5.58	4.50%
Positions and Percentage Vacant as of 12/31/09	8.50	6.85%

Note: Numbers may not sum to total due to rounding.

For further information contact: Dylan R. Baker

Phone: (410) 946-5530

- There are no new regular or contractual positions in the allowance. The agency’s turnover decreases from 4.66% in fiscal 2010 to 4.5% in fiscal 2011.

Analysis in Brief

Major Trends

Phone-based Customer Service Exceeds Goals: The customer service performance of the agency through the recently enhanced call delivery system exceeded the goals for prompt client attention in fiscal 2009.

Electronic Document-flow Expansion Continues: The commission’s transition to an electronic workflow continued to expand, as nearly 24% of all forms filed with the agency were submitted electronically.

Issues

Assessment on Employers: The fiscal 2009 use of accumulated balances reduced the assessment on employers that generates the special fund revenues that support the commission’s work, while the Workplace Fraud Act of 2009 will add costs. A significant charge increase could be the result in fiscal 2010. **The Department of Legislative Services asks that the agency comment on the projection for the fiscal 2010 employer assessment.**

Recommended Actions

1. Concur with Governor’s allowance.

Updates

Caseload Levels: The drop in total claims filed and related caseloads continued a downward trend in fiscal 2009, yet cases of injured workers with urgent hearing needs continued to grow.

C98F00
Workers' Compensation Commission

Operating Budget Analysis

Program Description

The Workers' Compensation Commission (WCC) administers the State Workers' Compensation Law that requires most Maryland employers to obtain and maintain insurance to provide benefits for employees who sustain an accidental personal injury, occupational disease, or death in the course of their employment. WCC receives, processes, and adjudicates claims for injured employees and refers appropriate claimants for medical and rehabilitation vocational services. WCC also provides data processing support services to the Subsequent Injury Fund and the Uninsured Employers' Fund under an interagency support services agreement. WCC is a special fund agency that covers expenditures with an annual maintenance assessment levied on insurance carriers, the Injured Workers' Insurance Fund, and self-insured employers. The WCC mission addresses the need for:

- the effective and timely delivery of services provided to its customers;
- a system for electronic exchange of all claims information documents; and
- the establishment of an effective system for the collection and analysis of all costs associated with the delivery of workers' compensation benefits.

Performance Analysis: Managing for Results

Phone-based Customer Service Exceeds Goals

WCC's primary Managing for Results goals measure the timely delivery of services by tracking the scheduling of nonpermanency hearings within 60 days of the date when issues are filed and the issuance of commission orders within 30 days of the hearings' conclusion. In fiscal 2009, as it has every year since fiscal 2004, WCC exceeded these standards by posting at least 98% completion rates in these categories. Therefore, alternative gauges of customer service efficacy were developed by WCC based on a recently installed Automated Call Delivery (ACD) system.

The system's computer software monitors key features of every call made to WCC, tracking statistics such as how long the caller must wait before being attended to by a WCC employee. Callers seek information over the phone on such varied workers' compensation topics as the proper forms required for claim filings, the status of hearing dates, and employer insurance verification. The goal established for this measure is to ensure that, by fiscal 2010, 95% of received calls will be answered within one minute.

C98F00 – Workers' Compensation Commission

In fiscal 2008, before the system was fully calibrated, WCC received 34,267 calls. The first official ACD data points are now available for fiscal 2009. There were 30,729 calls received in fiscal 2009, of which 29,619 were answered and 1,110 were abandoned before connection with an agency representative. The average time before a call was answered was 31 seconds, inclusive of the abandoned calls. Once connected to a customer service member, the average duration of each call was 1:48. There are four agents and one supervisor permanently assigned to public service, but they are not all logged on to the ACD system for the entire day. The average number of WCC representatives answering phones, which varies over the course of the day according to workloads because the employees responsible for phone service also perform other functions, was 3.44 at any given time.

These results show that fewer than 4% of total calls were abandoned, meeting the agency's established goal a year ahead of schedule. Yet, the performance may be superior to this mark, as WCC advises that many of the abandoned calls occurred when the commission was closed, and alterations to the software controlling the ACD system need to be made to allow this distinction to be captured and quantified.

Electronic Document-flow Expansion Continues

Exhibit 1 shows the form filing habits of WCC users. Total form filings dropped slightly in fiscal 2009 to 345,198 from the previous year's tally of 347,678, but the absolute and proportional numbers of electronically submitted forms grew. Nearly 24% of all forms were transmitted to WCC via computer in fiscal 2009, an increase of 15,300 forms over the fiscal 2008 levels, saving postage, paper, and processing times for the commission and its users.

Exhibit 1 also provides details for the most frequently utilized commission forms. This breakout shows that the use of e-forms increased across all form types. Some forms, such as issue withdrawals and postponement requests, are now predominantly submitted electronically, as each posted a 70% or greater e-form rate. This trend is forecast to continue as the agency states that, to date in fiscal 2010, it has already surpassed its fiscal 2011 goal of receiving 30% of forms electronically.

**Exhibit 1
Electronic Form Filing
Fiscal 2007-2009**

Frequently Used Forms	Total Forms	2007		2008			2009		
		Total e-Forms	%	Total Forms	Total e-Forms	%	Total Forms	Total e-Forms	%
Postponement Request	10,948	4,384	40.0%	11,365	6,398	56.3%	10,742	7,724	71.9%
Enter/Strike Appearance	63,325	10,936	17.3%	61,156	13,586	22.2%	56,230	18,093	32.2%
Issues Controversion	31,494	9,520	30.2%	30,976	13,739	44.4%	30,671	16,247	53.0%
Vocational Rehabilitation Progress Report	12,427	7,056	56.8%	12,643	7,321	57.9%	12,195	7,643	62.7%
Vocational Rehabilitation Referral Notice	5,708	3,860	67.6%	5,779	3,577	61.9%	5,897	3,966	67.3%
Employee Claim Form	26,099	1,920	7.4%	25,257	4,220	16.7%	23,554	5,316	22.6%
Withdraw Issues/ Set With	11,850	5,286	44.6%	11,769	7,148	60.7%	11,741	8,580	73.1%
Subtotal	161,851	42,962	26.5%	158,945	55,989	35.2%	151,030	67,569	44.7%
All Other Forms	185,945	7,444	4.0%	188,733	11,005	5.8%	194,168	14,773	7.6%
Total Forms	347,796	50,406	14.5%	347,678	66,994	19.3%	345,198	82,342	23.9%

Source: Workers’ Compensation Commission

Fiscal 2010 Actions

Impact of Cost Containment

The cost containment action of August 2009 reduced the WCC appropriation by \$231,470 to represent savings from employee furloughs.

Proposed Budget

As shown in **Exhibit 2**, personnel expenditures represent the majority of budgetary increases in the allowance. Retirement contributions add \$236,900 to the agency’s planned outlays. Employee salaries also increase, by \$77,400, due to the filling of 5 vacant positions and the reclassification of 4 positions. The main reduction to personnel expenditures is a \$42,800 decrease to the agency’s statewide workers’ compensation charge.

Reductions to operating expenditures counterbalance personnel spending increases, as they fall by \$220,600 overall. The primary reductions to budgeted spending are \$100,000 from the cancelation of a computer hardware maintenance contract and \$67,000 for software-related costs.

Exhibit 2
Proposed Budget
Workers’ Compensation Commission
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2010 Working Appropriation	\$13,639	\$30	\$13,670
2011 Allowance	<u>13,958</u>	<u>30</u>	<u>13,988</u>
Amount Change	\$318	\$0	\$318
Percent Change	2.3%		2.3%
 Contingent Reductions	 -\$265	 \$0	 -\$265
Adjusted Change	\$54	\$0	\$54
Adjusted Percent Change	0.4%	0.0%	0.4%

Where It Goes:

Personnel Expenses

Retirement contributions	\$237
Increments and other compensation	77
Turnover adjustments	-12
Workers’ compensation premium assessment.....	-47
Other fringe benefit adjustments	19

Other Changes

Rent increase	14
Technical assistance fees	14

C98F00 – Workers’ Compensation Commission

Where It Goes:

Staff training reduced	-15
Contractual employee expenditures.....	-17
Out-of-state travel eliminated.....	-19
Communication expenses reduced	-23
Reduced software maintenance spending	-67
Cancellation of hardware maintenance contract.....	-100
Other	-9
Total	\$54

Note: Numbers may not sum to total due to rounding.

Impact of Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers’ settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services (DLS) has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers’ Insurance Fund cost savings.

Issues

1. Assessment on Employers

The commission receives special fund revenue through an assessment on all employers as a function of total payrolls. The assessment is calculated by adding WCC operating budget to the costs of a safety program operated by the Department of Labor, Licensing, and Regulation (DLLR). The assessments and related payroll information for fiscal 2005 to 2009 are detailed in **Exhibit 3**.

Exhibit 3 Total Payrolls and Insurer Assessments Fiscal 2005- 2009

<u>Fiscal Year</u>	<u>Assessment Base Insurer Payroll</u>	<u>Gross Commission Expense</u>	<u>Safety Program Cost</u>	<u>Net Commission Expense*</u>	<u>Assessment Per \$1,000 of Payroll**</u>
2009	\$112,282,039,829	\$20,879,634	\$10,095,153	\$10,784,481	0.185
2008	102,210,947,969	22,038,459	9,261,289	12,777,170	0.209
2007	100,620,077,256	21,872,521	8,801,072	13,071,449	0.218
2006	94,559,745,432	21,431,819	7,990,180	13,441,639	0.204
2005	104,663,366,728	21,526,536	8,440,357	13,086,179	0.205

* Insurers were given a \$2.6 million credit for fiscal 2009 to correct an overaccumulation of funds in the balance. The actual commission expense was \$13.3 million.

**The commission’s payroll assessment for any given fiscal year may be adjusted by prior year payroll discrepancy reconciliation, the crediting of interest earned on monies held by the agency, and differentials in actual agency budgetary outlays vis-à-vis legislatively appropriated levels such that the assessed levy will not be an exact match for the gross expenses as a percent of assessed payroll.

Source: Workers’ Compensation Commission

WCC’s budget, as a portion of the assessment, has been static over the past several fiscal years. The total expense figure for fiscal 2009, however, does not reflect the agency’s \$13.3 million budget but rather reports only the \$10.8 million in expenses obtained through the assessment issued to insurers for that fiscal year. Insurers were given a \$2.6 million credit in fiscal 2009 for a balance that had accumulated in the assessment fund. This credit resulted in a significant decline in the assessment for the year, falling from \$0.209 to \$0.185 per \$1,000 of payroll.

Workplace Fraud Act Adds Cost to Assessment

Yet, Chapter 188 of 2009 added new workplace fraud functions to the DLLR program. DLLR has reported to WCC that the fiscal 2010 pass-through costs associated with this law, known as the Workplace Fraud Act, represents \$660,209 in additional cost for fiscal 2010. The added costs grow to \$849,335 in fiscal 2011. The DLLR portion, even before this expansion of duties, has consistently grown over the same time period. In fact, it may soon come to represent a greater portion of the assessment than the operations of the commission itself.

Since the fiscal 2009 charge was lowered by the use of balance, and the DLLR program is adding expenses that will be passed through, the fiscal 2010 charge to employers could increase significantly. **DLS asks that the agency comment on its projection for the fiscal 2010 employer assessment.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Caseload Levels

Caseload trends seen over the past several years continued in fiscal 2009. **Exhibit 4** displays the key figures that drive the WCC workload. The steady decline in claims filed accelerated in fiscal 2009, falling by 6.0%, the most significant decline in the last five years. Total first reports of injury also decreased, but by just 1.2%. With total reports hovering around 110,000 over the last three fiscal years, a leveling of this gauge appears to be emerging. WCC's out-year predictions ratify this view.

Exhibit 4
Commission Claim Actions
Fiscal 2006-2011

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>% Change 2008-09</u>	<u>Est. 2010</u>	<u>Est. 2011</u>
First Reports of Injury	121,687	111,515	111,984	110,625	-1.2%	110,000	110,000
Total Filed Claims	26,143	24,924	24,054	22,622	-6.0%	22,400	22,400
Issues Filed	46,940	44,444	45,296	44,968	-0.7%	45,250	45,250
Hearings Set	44,981	43,765	45,717	44,625	-2.4%	45,000	45,000
Appeals	2,254	1,791	1,998	1,887	-5.6%	1,800	1,800

Source: Workers' Compensation Commission

While total claim levels influence the WCC workload, the agency's tasks are principally driven by the issues filed on these claims. The volume of issues grows in line with the number of disputes that need to be adjudicated and the number of claims that reach permanency, as greater injury severity yields more complicated proceedings. The exhibit shows that after an increase in fiscal 2008, fewer issues were filed in fiscal 2009, for a total of 44,968. The number of hearings set had a similar fall back.

However, the larger workers' compensation trend of fewer cases being heard, but each case that is heard requiring more analysis and review, continues. To prioritize the scheduling of these claims, the agency has segmented its workload into three classes, depending on the nature of the claim. Top priority is given to urgent issues, such as temporary total, the need for medical treatment and vocational rehabilitation, all of which require longer deliberations. The incidence of high priority, high complexity cases continues to increase as a share of total cases. This is a trend WCC expects to continue in the near term.

Current and Prior Year Budgets

Current and Prior Year Budgets
Workers' Compensation Commission
(\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$0	\$13,591	\$0	\$30	\$13,621
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	155	0	0	155
Cost Containment	0	-173	0	0	-173
Reversions and Cancellations	0	-290	0	0	-290
Actual Expenditures	\$0	\$13,282	\$0	\$30	\$13,312
Fiscal 2010					
Legislative Appropriation	\$0	\$13,871	\$0	\$30	\$13,901
Cost Containment	0	-231	0	0	-231
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$13,639	\$0	\$30	\$13,670

Note: Numbers may not sum to total due to rounding.

C98F00 – Workers' Compensation Commission

Fiscal 2009

- A special fund amendment transferred \$154,538 to the commission for the 2% cost-of-living adjustment that was centrally budgeted in the Department of Budget and Management.
- As part of the June 2008 and March 2009 cost containment actions, \$173,194 of the commission's special fund appropriation was reduced from salaries.
- A cancelation of \$290,384 was processed at closeout, primarily due to the nonexpenditure of contractual payroll from unfilled vacancies and reduced reliance on Recall Commissioners to fill dockets.

Fiscal 2010

- The cost containment action of August 2009 reduced the WCC appropriation by \$231,470 to represent savings from employee furloughs.

Audit Findings

Audit Period for Last Audit:	July 1, 2005 – March 11, 2008
Issue Date:	March 26, 2009
Number of Findings:	5
Number of Repeat Findings:	2
% of Repeat Findings:	40%
Rating: (if applicable)	

Finding 1: Adequate procedures had not been established by WCC to monitor the sufficiency of securities pledged by self-insured employers. During the audit period, no actuarial studies were received, and audits were obtained for only 8 of 115 self-insured employers. WCC did not periodically verify the validity of letters of credit pledged by self-insured employers.

Finding 2: WCC did not verify the accuracy of reported employer payroll data used to calculate assessments to insurance companies and self-insured employers.

Finding 3: WCC had not established adequate controls over the processing of maintenance assessments, including the related accounts receivable records.

Finding 4: WCC fiscal year 2008 assessment billings were not properly calculated and, as a result, the balance of the Workers’ Compensation Fund exceeded the balance allowed by State law.

Finding 5: WCC did not conduct a physical inventory of its sensitive equipment as required by the Department of General Services’ *Inventory Control Manual*.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Workers' Compensation Commission**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	124.00	124.00	124.00	0	0%
02 Contractual	8.02	11.25	11.25	0	0%
Total Positions	132.02	135.25	135.25	0	0%
Objects					
01 Salaries and Wages	\$ 9,273,348	\$ 9,492,344	\$ 10,031,338	\$ 538,994	5.7%
02 Technical and Spec. Fees	626,336	658,027	640,550	-17,477	-2.7%
03 Communication	464,491	503,528	480,699	-22,829	-4.5%
04 Travel	153,201	121,204	102,622	-18,582	-15.3%
06 Fuel and Utilities	66,198	85,200	85,200	0	0%
07 Motor Vehicles	92,235	89,921	91,222	1,301	1.4%
08 Contractual Services	780,898	902,723	735,998	-166,725	-18.5%
09 Supplies and Materials	130,564	139,012	127,885	-11,127	-8.0%
10 Equipment – Replacement	80,014	0	0	0	0.0%
11 Equipment – Additional	15,402	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	52,387	52,387	52,387	0	0%
13 Fixed Charges	1,571,299	1,625,179	1,640,030	14,851	0.9%
14 Land and Structures	5,935	0	0	0	0.0%
Total Objects	\$ 13,312,308	\$ 13,669,525	\$ 13,987,931	\$ 318,406	2.3%
Funds					
03 Special Fund	\$ 13,282,154	\$ 13,639,371	\$ 13,957,777	\$ 318,406	2.3%
09 Reimbursable Fund	30,154	30,154	30,154	0	0%
Total Funds	\$ 13,312,308	\$ 13,669,525	\$ 13,987,931	\$ 318,406	2.3%

Note: The fiscal 2010 appropriation does not include deficiencies.