

Attachment H

Compliance Audit Procedures Guide



MARYLAND WORKERS' COMPENSATION COMMISSION

***Issued by: Insurance, Compliance & Reporting Division
August 2007
(Revised 12/2010)***

Statements made herein are for audit guidance purposes only. They are not to be used for any other purpose. This document contains no statement of Commission policy and is, therefore, not binding on the Commission under any circumstances.

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AUDIT PROCEDURES GUIDE

A. General

All audits for the Maryland Workers' Compensation Commission wherein this guide is used are to be performed in accordance with AICPA Compliance Attestation Pronouncement SSAE No. 10 as it relates to compliance with specific laws, regulations and other requirements and the effectiveness of internal controls related thereto. Also, the Government Auditing Standards (the "Yellow Book"), contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other non-government organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. In this regard, the compliance audit reports shall be limited to the "agreed upon procedures" set forth in the audit work plan and conform to the reporting guidelines and samples in the AICPA Compliance Attestation Pronouncement SSAE No. 10. In the event of conflict between the AICPA and Yellow Book guidance, the auditor should conform to the AICPA standards.

Audit Procedures Guide: this guide assists the auditor in identifying the major areas of audit and provides suggested (not required) audit procedures that can be used to satisfy the audit requirements. The auditor may use alternate approaches not specified in this Audit Procedures Guide if they satisfy the audit requirement. As the title implies, this Guide is only an aid to planning and performing specific audit procedures. This Guide is not an authoritative document of the Commission or any contract to which it may be attached to assist the auditor in performing an audit of a self-insured employer.

The purpose of the following procedures is to provide the auditor information to aid in satisfying the requirements of the audit. It is assumed that there will be instances in which not all procedures will be necessary or appropriate and alternate procedures may be used. Further, sampling should be used to test written or stated policies of Self-Insured Employer/TPA and to isolate procedures/practices that may justify either limited or expanded testing. Expanded testing should only be used to quantify a reportable condition. Before expanding any audit step, the Contract Manager should be consulted.

B. Internal Control Assessment

1. Policy and Procedures of Administrator and/or Program Office

- a. General - Is there written policy and procedures guidance available to claims adjusters and their superiors on the handling of injury reports, claims, settlements, reserving for losses and reporting to the Commission? Identify and comment on any areas that are not addressed adequately or do not conform to Commission laws and regulations or good business practice.
 1. Consider whether the guidelines adequately address the timeliness and reasonableness of claim reserves consistent with FASB Statement No. 5 Accounting for loss contingencies and Commission Regulations

2. Consider whether all costs (losses) related to compensable work related injuries are reported as workers compensation costs
 3. In cases where an injury may not be initially considered work related and is subsequently determined to be compensable for WC purposes, is there an appropriate adjustment to the workers' compensation costs?
2. Computer Reporting – Most, if not all, TPA's and program administrators have a computerized claims management system for recording and tracking program losses. An abbreviated review of the internal control structure of these systems should be performed. Use of a computer audit specialist for this purpose is not considered necessary.
- a. Are client's computer claim management programs and files restricted to employees who are assigned to the client account as adjusters and supervisors?
 - b. Do authorized adjusters have the authority to execute payment transactions and to estimate incurred losses?
 - c. Do these payments and estimates of incurred but not paid losses require approval or authorization by a responsible supervisor or manager?
 - d. Does the TPA's computerized claim management system produce the loss runs and reports used to prepare the IC-1 Annual Information Report submitted to the MWCC?
 - e. Does the TPA's computerized claim management system include a data field for the MWCC filed claim number and, if so, is it being used?
 - f. Are the specifications used to extract the claims management reports to prepare and submit with the IC-1 Annual Information Report available for review and do they contain any limitations or restrictions on the claims both active and closed during the reported periods?
 - g. Do the loss runs retain claim balances at the end of each reporting year so that the year-to-year change can be readily identified?

It is expected that most of the above considerations can be tested as a part of the examination of IC-1 report data.

C. Audit Procedures

1. Form IC-1 Information Report – June 30, 200X

Maryland Code Annotated, Labor & Employment § 9- 405(e) mandates that each self-insured employer submit a report at least annually. COMAR 14.09.10.08 set forth the reporting requirements and standards. The last three years of this report will be provided after the award is made.

There are several items on the IC-1 report that require verification to supporting documents and listings maintained by the Self-Insured Employer/TPA. They are as follows:

a. Claims Data – Section V

The IC-1 report requires self insured employers to report both the number of SF-1 (First Report of Injury) and C-1 (Employee's Claim) forms filed with the Commission during the current reporting period. The

IC-1 report also requires self insured employers to report the number of incidents and claims on which costs were paid or incurred and disclosed during the current reporting period.

Procedure: The Contract Manager will request the TPA to provide a list of all SF-1 Reports submitted to the Commission since July 1, 2003. Reported injury counts in the IC-1 should agree with the listing provided by the TPA. Significant variations should be investigated to determine reason. Additional procedures relating to the SF-1 are covered subsequently.

b. Reserves – Section VI

(1) Estimated Ultimate Loss Net of any Offsets - Self-insured employers are required to provide an independently prepared actuarial report every 3 years. On the two off years, the self-insured employer may use an internally prepared estimate of ultimate loss net of offsets. The Commission will provide the actuarial report for the most recent year.

Procedure: Support for the estimated ultimate loss amount in the off years should be examined for approach, methodology and reasonableness of result, taking into consideration changes in open claims and current year incurred losses and prior year estimates. Wide variances should be investigated and explained.

(2) Open Claims – COMAR 14.09.10.07D sets forth the information self insured employers are required to report to the Commission. All self-insured employers should maintain a loss run of claims that provide a historical listing of every claim (open and closed) submitted to the Commission as well as uncontested medical only incidents.

Procedure: The listing should cover the full period of self-insurance or 20 years, whichever is shorter. Only the most recent 5 years need to be listed by individual claim. The amount on the IC-1 report should agree with the loss run total incurred losses less payments made, or a separate listing of open claims containing the same information. If a separate list, check for agreement with information on the loss run.

c. Incurred Losses – Section VII

(1) Current Year Incurred Losses - The form requires self insured employers to report incurred losses for injuries that occurred in the current reporting year.

Procedure: The Current Year Incurred Losses (Original and Adjusted should be the same). The amount on the IC-1 report should be verified to the loss run or a separate listing of current year incurred losses. If a separate list, check for agreement with information on the loss run. The amount should be the sum of all incurred (paid and reserved) losses on accidents that occurred in the current reporting year.

(2) First Prior Year Incurred Losses (Original and Adjustments) - The form requires self insured employers to report incurred losses for injuries that occurred in the prior reporting year. The adjustments and adjusted balance should include any changes made to the prior year incurred losses.

Procedure: The amounts on the IC-1 report should be verified to the loss run or a separate listing for the year of loss. If a separate list, check for agreement with information on the loss run. The “Originally Reported” amount in the first column should agree with the amount reported on the prior year IC-1 report as the current year’s “Total Incurred as Adjusted”. The amount in the last column should be the total incurred losses for injuries occurring in the first prior year as adjusted for any change in payments or reserves. It is important to identify the claims changed that resulted in an adjustment. Such changes should be traced to the claim files to determine whether the timing of the change was timely, reasonable and appropriate.

(3) Second Prior Year Incurred Losses (Original and Adjustments) - The form requires self insured employers to report incurred losses for injuries that occurred in the second prior reporting year. The adjustments and adjusted balance should include any changes made to the amount reported in the first

prior year.

Procedure: The amount on the IC-1 report should be verified to the loss run or a separate listing for the year of loss. If a separate list, check for agreement with info on the loss run. The "Originally Reported" amount in the first column should agree with the amount reported on the prior year IC-1 report as the first prior year's "Total Incurred as Adjusted". The amount in the last column should be the total incurred losses for injuries occurring in the second prior year as adjusted for any change in payments or reserves. It is important to identify the claims changed that resulted in an adjustment. Such changes should be traced to the claim files to determine whether the timing of the change was timely, reasonable and appropriate.

2. First Report of Injury or Illness

a. Each injury to an employee or occupational disease that is considered employment related by either the injured worker or employer and involves at least 3 days of loss time must be reported to the Commission pursuant to Labor and Employment § 9-707 on a SF-1 (First Report of Injury) Form. COMAR 14.09.01.09A Payment of Claims states "Before filing a claim with the Commission, an employer or insurer may not pay, in whole or in part, any compensation under Labor and Employment Article, Title 9, Annotated Code of Maryland, for disability or death of an employee.

Procedure: The proper accounting for workers' compensation costs is the key element of concern. Because most employers have other benefit programs such as disability, sick pay, wage continuation plans, medical insurance, etc., the review should determine whether there are instances of injury that are employment related being charged to benefit programs other than workers' compensation or instances of loss time of more than three days being paid without a claim being filed with the Commission by the injured worker. Where all or part of the workforce is represented by a union, the contract between the union and the self-insured employer should be reviewed to determine consistency with workers' compensation law.

When salary payments are classified as workers' compensation, they should be checked for rate of pay. In this regard, the self-insured employer may classify salary payments as workers' compensation. However, the rate of pay or percentage of weekly salary may be different than that awarded by the Commission as compensation. Look for instances of loss time pay before a claim has been submitted to the Commission. Is there potential for the injury or occupational disease to result in a permanent disability or expensive surgery?

Note: An employer/insurer can deny a claim as being employment related. If so, it is appropriate to charge any related costs to other employee benefit programs. The injured worker must then request adjudication of the claim with the Commission. If as a result of a hearing the Commission declares the injury compensable and so orders, any cost paid under another program should be transferred into workers' compensation program.

b. Specific steps to be performed:

(1) Obtain or prepare a lead spreadsheet listing of all SF-1 forms. (Commission or Administrator provided) Select a limited sample of reported injuries for review. If after completing the following steps, there are significant issues requiring further inquiry, expand the sample to determine the extent of these issues existing on other cases. Any expansion of the agreed to work plan requires prior approval of the State's contract manager.

- (2) Review all SF-1 forms that cannot be matched with a claim filed with the Commission.
- o Familiarize yourself with content of each claim file.
 - o Determine if an employer/insurer claim number has been assigned.
 - o If so, does the incident involve lost time more than 3 days or medical expense?
 - o If so, is it reported on the loss run?
 - o Do the reported losses appear reasonable based on the nature of the injury? (Make copies of documents that appear to raise questions so that they can be reviewed by a subject

- matter expert)
- o If a claim was not filed with the Commission by the injured worker and lost time was paid, why was a claim not filed?
- o Is there any evidence that injured workers' claims are being paid by other employee benefit programs?
- o Document the estimated cost associated with this incident that is not otherwise reported in the loss run.
- o Any issues that appear to be potential problems relative to the severity of the injury and the timing and reasonableness of related reserves should be reviewed and agreed to by the audit team's subject matter expert

Provide a written assessment of the results of your review to include a clear statement of the conditions found, the criteria used to judge the compliance, correctness and/or reasonableness of the practices found, the cause of these variances from law, regulations, policies or generally accepted accounting or business practice (give specific reference, the effect these disclosures have on the correctness, appropriateness and reasonable on information reported to the Commission, and a statement as to whether officials of program agree with the facts being represented in this review). To the extent possible, a lead schedule should summarize the variances with the program records. If the review covered only a sample of the records, the write-up should discuss the possibility of these same conditions existing in cases not examined and whether further review of such files would likely and materially alter the results of this review.

3. Filed Claims

a. The purpose of reviewing claim files is to determine whether the reserve amounts are timely, reasonable and properly disclosed on the loss run. LE § 9-600 and seq. provide permanency ratings for selected injuries that can be used to determine whether reserve amounts were added when the nature and extent of injury was known or at some later date after the claimant filed for a permanency rating. Further, determine if there is any evidence of "stair stepping" or directed under-reporting by program management. The subject matter expert should be used to evaluate such practices and assist the audit team in identifying the extent of this practice in the universe of claims under examination.

Note: Claims filed with the Commission may be misclassified as being part of the self-insured program when in fact they are covered under a commercial policy, or a subsidiary may not be included in the self-insurance program. If a claim has been misclassified as self-insured, the auditor should determine the extent of such practice and related losses that should not have been charged to the self-insurance program.

b. Specific Steps to be performed:

(1) Find and match all filed claims with the loss run. The loss run should have a discreet internal claim number that is different than the Commission claim number. Effective July 1, 2006, filed claims with an injury date after June 30, 2006 is to be shown on the listing.

- o If filed claim not on loss run, determine reason
- o If no filed claim for incident (loss run internal claim number only) on which indemnity was paid, determine reason

(2) Select a sample of at least 20 SF-1 and/or filed claims that appear to have the potential for permanent disability. Determine if issues have been filed for a permanency hearing. If an order has not yet been issued by the Commission and additional samples are needed, consider the following:

- o Does the filed claim form show that the claimant has an attorney?
- o Does the description of the injury, such as loss of limb, occupational disease, repetitive motion, stress, hypertension, frequent or continuing exposure to harmful environmental conditions, death, etc., suggest that a permanency or fatality claim will be filed?
- o Is the claimant in a stressful or accident prone job – firemen, police, emergency personnel, nurses, truck drivers, etc?
- o Has the self-insured employer announced the closing of an operation or large job cuts?

- o Has the administrator already closed the case and the file shows temporary benefits only and the claimant has returned to work? (do not include in selection unless there is good reason to believe there will be additional activity on this claim)
- o Eliminate from sample any claim where it is clear there is third party liability such as vehicle accident. The cost of such claims may be passed on to the third party

(3) Review the case file for each claim in the sample and do the following:

- o Prepare a schedule of dates and amounts set up for indemnity, medical and Allocated Loss Adjustment Expenses (ALAE). (Most claim management systems have worksheets that can be printed for this purpose.) Under accounting pronouncement 5 – Accounting for Loss Contingencies – losses should be recognized when the event has occurred that will allow the loss to be reasonably estimated in part or whole.
- o Compare loss run amounts to any estimates or actions on file. An internal evaluation by the adjuster and supervisor should be completed within 90 days of the accident.
- o Read all notes on file to determine if there is any indication of deferring accruals or stair stepping of reserves. Self-insurers may defer reserving for permanency and medical treatment until claimant is represented by Counsel and a request for a permanency determination has been filed. Could the claims adjuster reasonably predict sooner that a permanency award based on the nature and extent of the injury would be made and there was no strong and convincing argument for denial?
- o Commission awards should be fully and actuarially accounted for. In this regard, the Commission is only interested in finding understated claims as of the date of the loss run. If the loss run amount changes through out the period but on the cutoff date for IC-1 reporting, the amount is reasonable and appropriate, then that claim is not considered understated as of the cut off date for the IC-1 report.

Assess the results of the tests to determine if there is a need for extending the sample to additional claims. Any findings or issues must be documented and copies of documents supporting these findings should be included in file. Further, additional audit work may be necessary at the self-insured employer's program office. Some of the steps outlined above may be under the control of the program office located out of state.

4. Annual Payroll Assessment

a. Pursuant to LE § 9-316, every insurer and self-insurer submits an A-02 Annual Payroll Report that purports to be the payroll assessment base of all policy holders for the one year period. For self-insurers, this is simply their Maryland payroll for the reporting period. For insurers, it is the sum of all policy holders assessed payroll. The purpose of reviewing Insurers' system for accumulating the payroll used to calculate premium is to maintain an equitable system for allocating the cost of operating the Commission among Maryland insurers and self-insurers. In performing the procedures below, the objective is to find significant system flaws that produce material misstatements of assessable payroll. You should not spend time finding errors on individual policies. If testing isolates a repetitive practice that results in misstatement, an assessment of the potential misstatement in the entire data base should be made to determine the additional work necessary to draw a conclusion on the differential it would made in the annual insurer's assessment made by the Commission

b. Specific steps to be performed:

(1) Obtain any written policy or procedures from the insurer that describes the system for accumulating assessable payroll. If not available, obtain and document the description of the system through interview of responsible personnel

(2) Obtain a listing or preferably computer file of the assessed premium payroll on each Maryland Policy. Using stop and go sampling technique test the amount in the listing to the amount in the policy file. Consider the following :

- o Is the policy holder located in more than one State?
- o Is there evidence that an insurance company auditor looked at the premium base and was satisfied as to the Maryland allocation?
- o Is there evidence that insurance audits are being performed and that premium adjustments are being made based on the results of audit?
- o If the Insurer is reporting payroll on a group basis instead of each individual member of the group, consider the possibility of not including certain members of the group or excluding the payroll of policy holders whose carrier was changed?
- o A policy holder may cancel his policy and switch coverage to another carrier outside the insurer group being audited. If a reduction is made in the assessable payroll, is the procedure used to calculate the adjustment reasonable and consistently applied. (if they do not make an adjustment, the insurer does not get the benefit of a lower Commission assessment. It is unlikely that such a finding would be material to the Insurer or Commission. It is not necessary to test for this practice unless the written procedure or verbal statements of Insurer staff suggest that this could be a significant problem area

(3) The insurer may maintain a separate file on all audit adjustments. If so, use the same technique above and satisfy yourself that the reported audit results agree with the listing and if not why not.

Assess the results of the tests to determine if there is a need to perform additional work not provided for in the audit plan. No additional work should be performed without the concurrence of the contract Manager. Any findings or issues must be documented and copies of documents supporting these findings should be included in file.

D. Audit Closeout

It is common practice before leaving the audit site to confirm with the auditee the factual correctness of the conditions found, the criteria used and the cause of the deviation on issues that may appear in the findings section of the audit report. The related effect and recommendation that may be reported to the Commission should not be discussed with the auditee. Before conducting any closeout, the Contract Manager should be given at least 24 hour notice and a verbal or written briefing on the issues to be discussed. The Contract Manager will advise as to his intention to attend.

E. Workpapers and Report Preparation

The audit work papers should follow the firm's prescribed format and indexing system. Cross-referencing of summary documents and audit findings to their source is required.

F. Quality Review of Workpapers and Report

No report should be issued without a review by a senior level professional not associated with the management or performance of the audit.

G. Audit Report Issuance

A draft of the proposed report should be given to the State's Contract Manager before issuance. The Contract Manager may request additional information, clarifications and/or revisions. His acceptance of the draft for finalization will be no later than 2 working days from the receipt of all requested information.

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Exhibit A

SAMPLE ONLY

Compliance Audit Report
On (Self-Insurer's Name)
Self-Insured Workers' Compensation Plan in Maryland

SAMPLE ONLY

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 EXHIBIT C: (SELF-INSURER’S) AGREE/DISADREE LETTER

SAMPLE ONLY

ACCOUNTANT'S LETTERHEAD

Independent Accountant's Report

Maryland Workers' Compensation Commission

We have examined (Self-Insurer's) compliance with the laws and regulations relating to their workers' compensation self-insurance plan in the State of Maryland for the three years ended June 30, 20XX as shown in Exhibit B, (Self-Insurer's) management is responsible for compliance with these requirements. Our responsibility is to express an opinion on (Self-Insurer's) compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and, accordingly, included examining on a test basis, evidence about (Self-Insurer's) compliance with these requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for an opinion. Our examination does not provide a legal determination on (Self-Insurer's) compliance with specified requirements.

In our opinion, (Self-Insurer) complied, in all material respects, with the aforementioned requirements for the three years ended June 30, 20XX.

This report is intended solely for the information and use of the Commission and is not intended to be and should not be used by anyone other than the specified party.

Independent Accountant's signature

SAMPLE ONLY

Material Findings

Material Findings represent events of noncompliance with specific requirements which are deemed material, and which resulted in a qualification of the opinion. For purposes of the compliance report, the accountant should consider as reportable those conditions that would result in a change- example (in the Open Reserves amount reported in Part VI of MDWCC Form IC-1) or represent a consistent pattern of noncompliance with the .law or regulations.

Observations

An observation is a deviation from criteria that, although it does not rise to the level of a material finding, may be necessary and useful to the Commission in obtaining program compliance.

Presentation of Findings and Observations

The Accountant's Content for Findings and Observations should be as set forth in the audit procedures guide. It is expected that a draft of the audit report will be given to the Self-Insurer for comment. The draft report provided to the Self-Insurer should not include recommendations. Recommendations should be included in the final report to the Commission after consideration of any comments by the Self-Insurer. If the Self-Insurer provides comments they should be incorporated into the finding or observation.

When the auditor identifies a finding or observation, the write-up must include:

- (a) the size and corresponding dollar value of the population,
- (b) the size and dollar value of the sample tested, and
- (c) the size and dollar value of the instances of noncompliance.

A well-developed finding or observation generally consists of the following attributes:

- **Statement of condition** - the nature of the deficiencies, e.g., a provision in the law or regulations not being followed, a control procedure not followed or one which is inadequate.
- **Criteria** - the specific law or regulation, a prudent management practice, or an internal control procedure not being followed.
- **Effect** - what happened as a result of the condition; this should be quantified (in monetary terms) in all possible instances and described as thoroughly as possible.
- **Cause** - why the condition exists, e.g. the self-insurer was unaware of the regulation or internal control was not a high priority of the self-insurer.
- **Recommendation** - what modifications and actions the Commission should consider in the Self-Insurer's approved self-insurance plan or to correct an unacceptable condition. These findings may also serve as a basis for the Commission to conduct additional work

SAMPLE ONLY

Self-Insurer's Name
Schedule of Reported Data – IC-1 Annual Information Report
For the Year Ended June 30, 20XX

	<u>As Submitted</u>	<u>Audit Adjustment</u>	<u>As Adjusted</u>	<u>Ref.</u>
Section V – Claims Data				
a.	First Reports of Injury			
b.	Filed Claims			
c.	Current Year Injuries with Incurred Losses			
Section VI – Open Reserves				
b.	Open Reserves – All Years			
Section VII – Incurred Losses				
1.	Current Year – As Adjusted			
2.	First Prior Year – As Adjusted			
3.	Second Prior Year – As Adjusted			

Note: Reference is required when there is an audit adjustment only. The reference can be included on this schedule or by reference back to a finding or observation

SAMPLE ONLY

Exhibit B: Listing of Specific Requirements Tested

The objective of this audit was to determine the: (1) fair and timely payment of legitimate claims make by injured workers, (2) reasonable and timely estimates of case reserves, (3) a system of classification that properly segregates indemnity and medical claims between workers compensation and other benefit programs, and (4) accurate and complete reports to the Commission.

Consistent with the guidelines set forth in the Commission audit procedures guide, we tested the following number of transactions that occurred during the audit period:

	<u>Tested</u>	<u>Universe</u>
First Reports of Injury	XX	XXX
Filed Claims	XX	XXX
Case Reserves (Number)	XX	XXX
Case Reserves (Dollars)	\$\$	\$\$\$
Incurred Losses (Number)	XX	XXX
Incurred Losses (Dollars)	\$\$	\$\$\$

SAMPLE ONLY

Accountant's Letterhead

Address to Self-Insurer Representative

Please acknowledge your agreement or disagreement with the proposed findings and observations summarized below and applicable to our examination of (Self-Insurer's) compliance with the State of Maryland Workers' Compensation approved self-insurance plan. Also, please explain any differences you have with any of the proposed findings/observations.

Self-Insurer's Name

<u>Finding/Observation</u>	<u>Agree</u>	<u><input checked="" type="checkbox"/></u>	<u>Disagree</u>	<u><input checked="" type="checkbox"/></u>
1. Short Description of Finding	<u>Agree</u>	<u>—</u>	<u>Disagree</u>	<u>—</u>
2. Short Description of Finding	<u>Agree</u>	<u>—</u>	<u>Disagree</u>	<u>—</u>
3. Short Description of Finding	<u>Agree</u>	<u>—</u>	<u>Disagree</u>	<u>—</u>
4. Short Description of Finding	<u>Agree</u>	<u>—</u>	<u>Disagree</u>	<u>—</u>

Acknowledged by:
Self-Insurer Name

Signature

Name and Title

Cc: Distribution at the election of the signor

Exhibit B

SAMPLE ONLY

Maryland Workers' Compensation Commission

Assessment of (TPA name) Internal Control Structure
Over the Processing and Reporting
on Claims Filed with the Commission
for their Self-Insured Clients

SAMPLE ONLY

Accountant's Letterhead

Date

Maryland Workers' Compensation Commission
Baltimore Maryland

At the request of the Maryland Workers' Compensation Commission, we are submitting the following assessments and recommendations related to (TPA's name) internal controls relating to the adequacy of internal controls relating to the following areas:

1. Written policy and procedures for the adjusting and processing of claims
2. Consistency of practices with written procedures
3. Consistency of policy, procedures and practices among self-insured clients
4. Evidence and documentation of claim actions and decisions
5. Appropriate levels of review and approval of payments and accruals of incurred losses (Case Reserves)
6. A claim management reporting system that produces the loss runs and related reports for submission to the MWCC

These assessments were made in conjunction with the compliance audits of the following (TPA's name) client.

- (List Self-insured Clients of TPA covered by audit)
-
-
-
-

They (did/did not) include assessments of controls maintained by these self-insurers at their program (headquarters) office. (If the activities of the program office materially impact on the system of internal control, it should be so stated in the report. For example – the program office may maintain their own database of claims and related payments and accruals which is used to report to the MWCC

The management of (TPA) is responsible for establishing and maintaining an internal

SAMPLE ONLY

control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and

procedures. The objective of an internal control structure are to provide management and the MWCC with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and the transactions are executed in accordance with the internal policies and procedures of the (TPA), contractual terms and conditions of the self-insured client and the applicable laws and regulations of the State of Maryland and to permit the preparation of accurate and complete reporting to the MWCC. Because of the inherent limitations in any internal control structure, errors and irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods are subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

An effectively designed internal control structure should help minimize the risk associated with financial and other operating activities while not impeding the critical functions of management or staff or creating unreasonable administrative costs to implement and maintain. We wish to emphasize that all recommendation require careful consideration on the impact that implementation of recommendations would have on other activities as well as the entity as a whole. Also, determining whether modifications to the internal control structure should be made requires careful consideration of the costs versus the expected benefits of implementation as well as related risks of activity being considered.

Our consideration of the internal control structure and operating effectiveness was limited to the areas identified herein and is not intended to be a complete review of all the claim processing and reporting procedures of (self-insurer name), therefore, it would not necessarily all reportable conditions or other comments for improvement

The following comments and recommendations are based on our test procedures as well as interviews with various management and staff of (TPA name).

Insert and Number Each Comment and Recommendation

This consulting service engagement was conducted in accordance with the Statement on Standards for Consulting Services of the American Institute of Certified Public Accountants. This report is intended solely for the information and use of the management of the MWCC and is not intended to be and should not be used by anyone other than the specified party.

Signature of Accountant Firm

Attachment 1

STATE OF MARYLAND
WORKERS' COMPENSATION COMMISSION
10 E. Baltimore Street
Baltimore, MD 21202

INFORMATION REPORT - June 30, 2006

All Questions Must be Answered

(Under LE § 9-405(e) of Maryland Workers' Compensation Commission Law)

Please print or type

Insurer ID: _____ (Commission use only)

SECTION I - Corporate or Organization Data

Federal I.D. No: _____

Name of Self-Insurer: _____

Corporate Address: _____

Contact Person for Self-Insurance Program at Corporate Headquarters: _____

Phone No: () _____ Fax No: () _____

Email address: _____ Toll Free Phone No: () _____

Type of Organization: Corporation () Partnership () Other () Specify: _____

Fiscal Year Ends: _____

Organization's Contact Person in Maryland (do not provide the name of a service company or attorney. If none, explain):

Name: _____

Address: _____

Phone No: () _____ Fax No: () _____

Email address: _____

Organization's In-house Legal Counsel:

Name: _____

Address: _____

Phone No: () _____ Fax No: () _____

Email address: _____

Organization's Chief Financial Officer:

Name: _____

Address: _____

Phone No: () _____ Fax No: () _____

Email address: _____

SECTION II - Workers' Compensation Commission Representative (as required by LE Sec. 9-405(d), Annotated Code of Maryland)

Service Company or In-house Administrator:

Name of Contact Person: _____

Firm Name: _____

Address: _____

Phone No: () _____ Fax No: () _____

Email address: _____

(NOTE: The above information will be changed on the Commission's records only upon written notification to the Commission by the self-insured employer.)

SECTION III – Participating Payroll Office (List all payroll offices writing payroll for employees covered under this plan. If the name on the check is different than the self-insured, indicate if it is a subsidiary, affiliate, division, plant or office; include the effective date when each became self-insured. If additional space is needed, please attach exhibit.)

This report includes payroll of the following:

Business Name: _____ Federal I.D. No: _____

Address: _____

Phone No: () _____ Fax No: () _____

Self-Insured () Subsidiary () Affiliate () Division () Plant () Office () Effective date of self-insurance: _____

Principal Classification _____ No. Employees _____ No. All Other Employees _____

Business Name: _____ Federal I.D. No: _____

Address: _____

Phone No: () _____ Fax No: () _____

Subsidiary () Affiliate () Division () Plant () Office () Effective date of self-insurance: _____

Principal Classification _____ No. Employees _____ No. All Other Employees _____

Business Name: _____ Federal I.D. No: _____

Address: _____

Phone No: () _____ Fax No: () _____

Subsidiary () Affiliate () Division () Plant () Office () Effective date of self-insurance: _____

Principal Classification _____ No. Employees _____ No. All Other Employees _____

Business Name: _____ Federal I.D. No: _____

Address: _____

Phone No: () _____ Fax No: () _____

Subsidiary () Affiliate () Division () Plant () Office () Effective date of self-insurance: _____

Principal Classification _____ No. Employees _____ No. All Other Employees _____

Business Name: _____ Federal I.D. No: _____

Address: _____

Phone No: () _____ Fax No: () _____

Subsidiary () Affiliate () Division () Plant () Office () Effective date of self-insurance: _____

Principal Classification _____ No. Employees _____ No. All Other Employees _____

SECTION IV - Payroll Data

a. Annual period covered by this report: From: _____ To: _____

b. Number of employees covered: _____ c. Annual Maryland Payroll: (To the nearest dollar) _____

Types of work performed: _____

SECTION V - Claims Data

a. How many accidents occurred during this period (SF-1)? _____

b. How many accidents resulted in claims to the Commission during this period (Received Comm. Claim #)? _____

c. How many accidents occurred during the current reporting period for which costs were incurred or paid? _____

d. Claims paid – Please provide a copy of the Annual Claims Payment Summary that is due to the Commission August 14, 2006.

Section VI Reserves

- a. Ultimate loss net of payments (for all years), including IBNR net of any expected excess carrier payments (indemnity, medical, vocational rehab. and all other).
\$ _____
- b. Total value of open claims/case reserves (for all years). This amount should agree with Total Reserves on Loss Run. If not, please attach an explanation.
\$ _____

Section VII Incurred Losses

Workers' Compensation claims incurred by year (paid and case reserves) by this organization in the past three years (including medical, vocational rehab., indemnity and all other direct claim costs). Please provide a detailed listing of claims that comprise the adjustments to prior year incurred losses:

Reporting Period	Originally Reported	Adjustments To Prior Year	Total Incurred As Adjusted
1. Current Year			
2. First Prior Year			
3. Second Prior Year			

SECTION VIII - Excess Coverage and Security Deposit Information

- a. Amount of risk retained by self-insurer: \$ _____
- b. Excess workers compensation policy limits: \$ _____
- c. Does your excess insurance provide for an annual aggregate limit? Yes () No ()
If so, what is the annual aggregate amount? \$ _____
- d. Name of Excess Carrier: _____
- e. Do you have umbrella coverage applicable to workers' compensation? Yes () No ()
Amount \$ _____
- f. Amount of surety bond: \$ _____
-OR-
Amount of security on deposit: \$ _____
-OR-
Amount of letter of credit: \$ _____
- g. Issuer of security instrument: _____

SECTION IX. Additional Information (please provide the following by attachment or exhibit):

- a. Loss Runs (in detail for the immediate past 5 years and in annual summary for up to an additional 15 years not to exceed the period of self-insurance).
- b. Employee Locations (list worksites where the number of employees is greater than 10)
- c. Copies of OSHA citations, if applicable, for operations in the State of Maryland issued within the payroll period covered by this report.
- d. Copy of contract with Third Party Administrator, if any. Note: Not required if TPA has not changed since 2005 reporting.
- e. Listing of claims which issues were filed with the Commission requesting penalties.
- f. Listing of claims with penalties assessed (may be combined with f. above).
- g. A statement whether there has been any change (in the reporting period) in accounting for Workers' Compensation costs as a result of audit or internal recommendations.
- h. Listing of the states in which you are self-insured for Workers' Compensation; the number of states in which you have employees but are not self-insured.
- i. Certificate of Status (Good Standing) for Third Party Administrator, if applicable. The Certificate should be from the State of Maryland.
- j. Number of independent contractors (and associated payroll) covered by the self-insurance program. Is the payroll, if any, included in Section IV?

Note: If any of the requested items in a – j above would result in no information being submitted, please state so according to letter above (i.e., Exhibit F, No data).

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

I certify that to the best of my knowledge and belief the information contained in this report and any attachments thereto is true and correct.

IN WITNESS WHEREOF, I have hereunto subscribed my name and caused the official seal to be affixed this _____ day of _____, 2006.

Name of Self-Insured Employer
By: _____
Print Your Name in Full
Signature: _____
Title: _____
Phone No: () _____

Notary:

State of _____
City or County of _____

I hereby certify that on this _____ day of _____, 2006, before me the subscriber, a resident of the State of _____, in and for said County, personally appeared _____, (title) _____ of (Self-Insured Employer) _____ and made oath in due form of law that the matters and facts set forth in the foregoing reporting form and attached documents are true.

(seal)

My Commission Expires:

NOTES

Attachment 2

WORKERS COMPENSATION - FIRST REPORT OF INJURY OR ILLNESS															
GENERAL	EMPLOYER (NAME & ADDRESS INCL ZIP)					CARRIER / ADMINISTRATOR CLAIM NUMBER			REPORT PURPOSE CODE						
						JURISDICTION		JURISDICTION CLAIM NUMBER							
						INSURED REPORT NUMBER									
	SIC CODE					EMPLOYER FEIN			EMPLOYER'S LOCATION ADDRESS (IF DIFFERENT)		LOCATION #				
CLAIMS ADMINISTRATOR	CARRIER (NAME, ADDRESS & PHONE NO)					POLICY PERIOD		CLAIMS ADMINISTRATOR (NAME, ADDRESS & PHONE NO)							
						TO									
						CHECK IF APPROPRIATE									
						SELF INSURANCE									
EMPLOYEE	CARRIER FEIN			POLICY / SELF INSURED NUMBER			ADMINISTRATOR FEIN			AGENT NAME & CODE NUMBER					
	NAME (LAST, FIRST, MIDDLE)					DATE OF BIRTH		SOCIAL SECURITY NUMBER		DATE HIRED	STATE OF HIRE				
	ADDRESS (INCL ZIP)					SEX		MARITAL STATUS		OCCUPATION / JOB TITLE					
	TELEPHONE (INCLUDE AREA CODE)					# OF DEPENDENTS		K UNKNOWN		NCCI CLASS CODE					
OCCURRENCE	RATE		PER:		DAY		MONTH		# DAYS WORKED / WEEK		FULL PAY FOR DAY OF INJURY? DID SALARY CONTINUE?				
					Week		OTHER:				YES NO				
											YES NO				
	TIME EMPLOYEE BEGAN WORK		AM PM		DATE OF INJURY / ILLNESS		TIME OF OCCURRENCE		AM PM		LAST WORK DATE		DATE EMPLOYER NOTIFIED		DATE DISABILITY BEGAN
CONTACT NAME / PHONE NUMBER					TYPE OF INJURY / ILLNESS				PART OF BODY AFFECTED						
DID INJURY / ILLNESS EXPOSURE OCCUR ON EMPLOYER'S PREMISES?					TYPE OF INJURY / ILLNESS CODE				PART OF BODY AFFECTED CODE						
DEPARTMENT OR LOCATION WHERE ACCIDENT OR ILLNESS EXPOSURE OCCURRED					ALL EQUIPMENT, MATERIALS OR CHEMICALS EMPLOYEE WAS USING WHEN ACCIDENT OR ILLNESS EXPOSURE OCCURRED										
SPECIFIC ACTIVITY THE EMPLOYEE WAS ENGAGED IN WHEN THE ACCIDENT OR ILLNESS EXPOSURE OCCURRED					WORK PROCESS THE EMPLOYEE WAS ENGAGED IN WHEN ACCIDENT OR ILLNESS EXPOSURE OCCURRED										
HOW INJURY OR ILLNESS / ABNORMAL HEALTH CONDITION OCCURRED. DESCRIBE THE SEQUENCE OF EVENTS AND INCLUDE ANY OBJECTS OR SUBSTANCES THAT DIRECTLY INJURED THE EMPLOYEE OR MADE THE EMPLOYEE ILL											CAUSE OF INJURY CODE				
DATE RETURNED TO WORK			IF FATAL, GIVE DATE OF DEATH			WERE SAFEGUARDS OR SAFETY EQUIPMENT PROVIDED?			YES NO		WERE THEY USED?		YES NO		
TREATMENT	PHYSICIAN / HEALTH CARE PROVIDER (NAME & ADDRESS)					HOSPITAL (NAME & ADDRESS)					INITIAL TREATMENT				
											<input type="checkbox"/> NO MEDICAL TREATMENT <input type="checkbox"/> 1 MINOR: BY EMPLOYER <input type="checkbox"/> 2 MINOR CLINIC / HOSP <input type="checkbox"/> 3 EMERGENCY CARE <input type="checkbox"/> 4 HOSPITALIZED > 24 HRS <input type="checkbox"/> 5 FUTURE MAJOR MEDICAL / LOST TIME ANTICIPATED				
OTHER	WITNESS (NAME & PHONE #)														
	DATE ADMINISTRATOR NOTIFIED			DATE PREPARED		PREPARER'S NAME & TITLE				PHONE NUMBER					

FORM IA-1 (5/93)

SEE BACK FOR IMPORTANT INFORMATION / OSHA REQUIREMENTS

IAIABC 1993
WCER3N 1

NOTICE

This form is NOT a claim for compensation. Failure to file a claim within 2 years of the date of accidental injury may bar an employee's claim for compensation. Employees may obtain claim forms from the Workers' Compensation Commission.

EMPLOYER:

COMPLETE BOTH SIDES OF THIS FORM AND SEND IT IMMEDIATELY TO —

WORKERS' COMPENSATION COMMISSION
10 EAST BALTIMORE STREET, BALTIMORE, MARYLAND 21202-1641

A copy of this form must be mailed to the DIVISION OF LABOR AND INDUSTRY, 1100 N. EUTAW STREET, SUITE 611, BALTIMORE, MARYLAND 21201 and an additional copy should be sent by the employer to his or her workers' compensation insurance carrier. The weekly earnings schedule below of the employee whose injury is being reported on the front side of this form should be completed at the time the report is submitted if at all possible, but in any event the wage information must be supplied no later than ten (10) days following the employer's receipt of a Notice of Claim from the Commission. An employer's failure to submit the wage information as required will result in the Commission's use of information supplied by the Claimant to the possible detriment of the employer.

REPORT OF WAGE INFORMATION

Injured Employee Name _____

Social Security Number _____

Week No.	Month	Week Ending Day	Year	Days Worked	GROSS	Amount Paid including all Overtime
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						

Was this employee given free rent, lodging, board, tips or other allowances in addition to the above earnings? If yes, state weekly value thereof. \$ _____

Signed _____

(MD Supp Rev 12/97)

Attachment 3

EMPLOYEE'S CLAIM WORKERS' COMPENSATION COMMISSION

10 East Baltimore Street
Baltimore, Maryland 21202-1841
BALTIMORE PHONE 410-864-5100
TOLL FREE 1-800-492-0479 IN MARYLAND
TTY USERS CALL VIA MARYLAND RELAY

DO NOT WRITE IN THIS AREA

DATE STAMP

CLAIM NUMBER

PERSONAL INFORMATION

1. Claimant First Name _____ 2. Middle Initial _____ 3. Claimant Last Name _____

4. Mailing Address _____ 5. Phone Number _____

6. City _____ 7. County _____ 8. State _____ 9. Zip Code _____

10. Social Security Number _____ 11. Sex _____ 12. Date of Birth _____ 13. Marital Status _____ 14. Gross Wages Per Week _____ 15. Paid full wages for day? YES/NO _____

16. What Is Your Regular Work? _____ 17. What Was Your Work When Injured? _____

EMPLOYER INFORMATION

18. Full and correct business name of your employer _____

19. Complete address _____ 20. Employer Phone Number _____

21. City _____ 22. State _____ 23. Zip Code _____

24. Nature of Employer's business _____ 25. Location where accident occurred _____ 26. Notice of Injury Given? YES/NO _____

27. Whom did you notify of the accident? _____ 28. First Day Not Worked _____ 29. Occupat. Disease? YES/NO _____ 30. Date of accident/occupational disease/disability _____ Time AM/PM _____

31. Describe how accidental injury occurred _____ OR 32. Describe how occupational disease occurred _____

NOTE: Failure to disclose information or giving false information, including information regarding any work related activity or return to work either before or after an award of benefits, may subject you to fines, imprisonment, or both, and disqualify you from receiving benefits. COMPLETE ALL BLOCKS OR CLAIM PROCESSING MAY BE DELAYED. MAKE COPY OF COMPLETED FORM AND SEND THE COPY TO EMPLOYER. THIS WILL HELP INSURER TO EXPEDITE CLAIM.

CLAIM INFORMATION

33. What member of your body was injured? _____ 34. Amputation Required? YES/NO _____ 35. Employer requested to provide medical care? YES/NO _____ 36. Medical care provided? YES/NO _____ 37. Date returned to Work _____

38. Attending Physician Name _____ 39. Address _____

40. Apt./Suite _____ 41. City _____ 42. State _____ 43. Zip Code _____

44. If you were in a hospital - Hospital Name _____ 45. Address _____

46. Apt./Suite _____ 47. City _____ 48. State _____ 49. Zip Code _____

50. If you are represented by an attorney - Attorney's Name _____ 51. Address _____

52. Apt./Suite _____ 53. City _____ 54. State _____ 55. Zip Code _____

56. Attorney Phone Number _____ 57. Is this the only Workers' Compensation claim you have filed for this Accident or Occupational Disease? YES/NO _____ 58. If "No", give claim no. _____

59. If Health Insurance used, give name of Insurance Co. _____

READ REVERSE BEFORE SIGNING -
KEEP DUPLICATE COPY FOR YOUR RECORDS

I hereby make claim for compensation for an injury resulting in my disability due to an accident (or disease) arising out of and in the course of my employment, and in support of it make the foregoing statement of facts. I hereby certify that the information I have given is accurate and that I have read the information on this form.

SIGNATURE _____ DATE _____

DO NOT WRITE IN SPACE BELOW

INS. CO. _____ ATTY _____ INS. CO. 2 _____ ATTY _____ EMPLOYER _____ EMP. ATTY _____ CLM. ATTY _____

Recognition Ready Form
WCC Form 01 (Rev. 10/90)