



# Georgia Department of Audits and Accounts Performance Audit Division

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## Why we did this review

We conducted this follow-up review to determine the extent to which the Georgia Department of Administrative Services (DOAS) addressed the recommendations presented in our December 2017 special examination (Report # 17-10).

The 2017 examination analyzed the trends, financial liabilities, and settlement impacts of the Georgia workers' compensation program.

## About State Workers' Compensation

The 1920 Workers' Compensation Act provided for immediate medical and income benefits for workers injured "out of and in the course of" employment. It also fixed the amount of benefits paid. Georgia is an employer under the Act and is subject to its requirements. Covered employees include those employed by any state agency, instrumentality, or authority. In fiscal year 2019, approximately 125,200 employees were covered by the state's program.

The Risk Management Services Division of the Department of Administrative Services manages Georgia's workers' compensation program. In fiscal year 2019, 5,471 new claims were reported. Because claims can remain open for multiple years, in fiscal year 2019, the state paid \$113.2 million in expenses for 11,273 claims.

## Follow-Up Review State Workers' Compensation

### Actions taken by DOAS are limited by availability of funding for settlements

#### What we found

Since our 2017 special examination, the Department of Administrative Services (DOAS) has partially addressed several findings from our original report. The changes include extensively updating the Risk Management Services (RMS) policy manual, enhancing data collection, establishing policies for both premium calculation and settlement evaluation, and establishing a fund reserve target. The workers' compensation program remains limited, however, by a lack of funding, especially as it relates to setting premium levels, creating fund reserves, and settling claims.

As discussed in the original audit, premiums are the program's primary source of revenue but were insufficient to cover all program expenses resulting in depleted fund reserves. Once the reserves were depleted, the program was unable to settle claims to provide the state with long-term savings. This situation was aggravated by not having an established policy for estimating annual expenses and setting premiums.

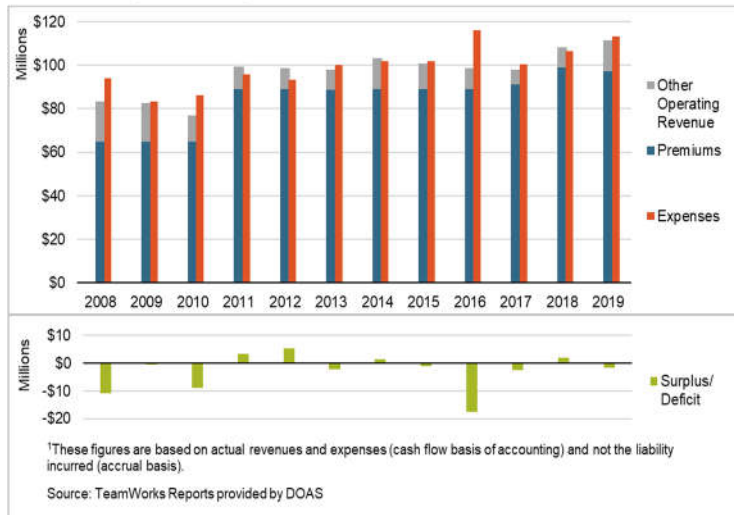
#### Settlements

While DOAS has not received any funding specifically for settlements, it has continued to settle SIF-eligible cases when possible. DOAS staff report that conversations with individual legislators indicate an interest in using settlements as a tool to avoid larger long-term costs; however, no additional funding for settlements has been allocated to date.

DOAS reports that it has not issued guidance to claims adjusters related to identifying claims for settlement because funds are not currently available. Overall, RMS continues to rely on the

experience of individual adjusters, DOAS attorney recommendations, and claimant requests to identify claims for settlement. However, it has created a uniform method of evaluating claims for settlement and arranged for a claims system update that will help analyze claims across the program and calculate potential settlement savings.

**Exhibit 1**  
**Workers' Compensation Expenses Exceeded Revenues in Fiscal Year 2019**



### Premiums and Fund Reserves

At the time of the original audit, premiums had been relatively flat and total revenues were not covering expenses. Premiums rose in fiscal year 2018 and revenues covered expenses. However, in fiscal year 2019, premiums dropped slightly and, while remaining above the fiscal year 2017 level, expenses once again exceeded revenues (Exhibit 1). According to staff, DOAS created a fund balance reserve target of \$5 million in consultation with the Governor’s Office of Planning and Budget. Though the current reserve balance stands at approximately \$2 million, staff report that they anticipate a deficit for fiscal year 2020 that will deplete the fund balance.

### Data Collections

Data entry consistency has improved, which should allow DOAS to aggregate and analyze data for evaluating trends and informing loss control efforts. RMS has added updated screenshots and instructions for using the data collection system. Prior to the audit, it used an outdated manual which referred to a legacy data system and did not provide guidance on how to collect claim data in the new data system. In addition, the data system itself has been updated to convert most data fields from optional and open text to a mandatory response of preset drop-down menus.

### SITF (Subsequent Injury Trust Fund)

While RMS continues to include SITF reimbursements, staff reported that they have considered the changes coming to the fund. DOAS staff are aware that both expenses and reimbursements related to the SITF will decline over time, and DOAS stopped paying assessments to the SITF on January 1, 2020. Premium calculations continue to include reimbursements from the fund. However, information collected after the previous audit shows that the SITF will continue to reimburse RMS for SITF-eligible claims until all claims serviced by the fund are closed. Management of the SITF will be housed under the Commissioner of Insurance upon dissolution of the SITF board in 2023.

*DOAS’ Response:* The agency concurred with the status as presented. It noted, “we will continue to evaluate our systems and processes to identify opportunities for improvement in areas that were pointed out in the review. We are also making improvements in our Workers’ Compensation Return to Work process we believe will have a positive impact in the future on reducing claim costs. Finally, DOAS supports and welcomes any legislative initiatives that are brought forward to secure additional funding as additional funding would provide an opportunity to settle a portion of old Workers’ Compensation claims, thus reducing the State’s overall outstanding liability.”

The following table summarizes the findings and recommendations in our 2017 report and actions taken to address them. A copy of the 2017 special examination report (#17-10) may be accessed at <http://www.audits.ga.gov/rsaAudits>.

<b>State Workers' Compensation Follow-Up Review, June 2020</b>	
<b>Original Findings/Recommendations</b>	<b>Current Status</b>
<b>Claim frequency has fallen, but average costs have risen.</b>	<b>No Recommendation.</b>
<b>Trends varied by claim type.</b>	<b>No Recommendation.</b>
<b>The number of claims by entity varies according to entity size and claim frequency.</b>	<b>No Recommendation.</b>
<b>Claims may remain open or be re-opened for many years; these older claims represent a significantly larger portion of the expenses.</b>	<b>No Recommendation.</b>
<b>The state's claims payable liability is growing.</b>	<b>No Recommendation.</b>
<p><b>Premiums are not adequately set and have not covered program expenses.</b></p> <p>We recommended that in order to ensure DOAS requests sufficient funding for its workers' compensation program, it could establish a standard procedure for estimating claim expenses, which could include utilizing actuarial estimates. The annual premium level calculation process should include additional amounts for claim settlements, unanticipated expenses, and the Workers' Compensation Fund reserves. These processes should be documented in a written policy.</p> <p>In addition, we recommended that in order to provide an additional financial incentive to covered entities, the General Assembly could consider allowing entities to keep a portion of the savings when their workers' compensation premiums fall. The General Assembly could also consider requiring DOAS to report its estimates of reserve and premium needs independently in order to fully understand the state's workers' compensation liability and to improve the transparency in the budgetary process.</p>	<p><b>Partially Addressed</b> – Overall, premiums have increased slightly since the original audit was released. While DOAS has taken steps, additional action is necessary to address the recommendations fully.</p> <p>As recommended, DOAS has documented its premium calculation policy and stores the policy on a division-wide shared network drive. All personnel involved in the premium calculation process can access this policy, though the policy itself has not changed since the original audit. Premium levels continue to cover only the anticipated expenses for the upcoming fiscal year, rather than accounting for additional revenue to settle cases effectively, to cover unanticipated expenses, and to create a reserve fund.</p> <p>Agency staff confirmed the Workers' Compensation program does not operate any financial incentive mechanism. They stated that such a method has been considered and, based on informal conversations, is viewed positively by both the Governor's Office and the General Assembly.</p> <p>Staff also stated that the agency continues to provide information regarding the Workers' Compensation program to the General Assembly through the Senate Budget and Evaluation Office and the House Budget and Research Office. This occurs primarily through meetings with the assigned analysts. DOAS has not been required to provide any additional estimates or information.</p>

<b>State Workers' Compensation Follow-Up Review, June 2020</b>	
<b>Original Findings/Recommendations</b>	<b>Current Status</b>
<p><b>Fund reserves have been depleted.</b></p> <p>At the time of the special examination, the workers' compensation reserve fund had been depleted. We recommended that the agency establish a reasonable target for a fund reserve level.</p>	<p><b>Partially Addressed</b> – RMS leadership reported that the agency has established a fund reserve target of \$5 million. The reserve currently stands at slightly less than \$2 million. DOAS reports that it projected during House and Senate budget meetings that fiscal year 2020 will have a deficit of approximately \$5 million, which will deplete the fund balance.</p> <p>The audit recommended RMS establish a target based on anticipated need. Agency staff reported they consulted with the Governor's Office of Planning and Budget and reviewed other states to determine an achievable reserve level. However, staff noted that the \$5 million target is a reserve to provide a cash flow cushion and cover operational costs, not to provide funding for settlements.</p>
<p><b>Revenues from the Subsequent Injury Trust Fund (SITF) have covered some of the shortfall but are declining.</b></p> <p>We recommended that the agency consider the impact of the SITF elimination when setting premiums.</p>	<p><b>Fully Addressed</b> – DOAS determined that the SITF will continue to operate until all SITF claims have been paid. After December 31, 2023, the fund will be administered by the Commissioner of Insurance and will continue to operate in a manner like that described in the prior audit. SITF actuarial reports suggest that the fund may continue operating into 2061.</p> <p>According to staff interviews and financial information provided by the agency, Risk Management Services are accounting for revenue from SITF reimbursements and considers this revenue when conducting premium calculations.</p>
<p><b>Medical and indemnity benefit expenses drive program costs.</b></p>	<p><b>No Recommendation.</b></p>
<p><b>Data collection and availability inhibit the type of analysis that can be conducted.</b></p> <p>We recommended that the agency should ensure that it collects sufficient data to identify potential opportunities to reduce workers' compensation losses and review and revise its policies and procedures manual.</p>	<p><b>Partially Addressed</b> – The agency has taken steps to improve data entry consistency; there are additional steps it could take to further improve data availability. The agency has also revised its policy manual to reflect these changes.</p> <p>Converting open text fields to drop-down menus with limited numbers of predetermined entries and making certain fields mandatory should make data entry more consistent, particularly for data fields used to identify factors that impact program costs. For instance, the field used to record claimant occupation is now limited to 63 possible entries, rather than the potentially infinite number allowed by the prior open text format. Additionally, the field used to record injury severity is now limited to seven possible entries. Both these and other fields are now mandatory and allow DOAS the potential to evaluate trends and inform loss control efforts.</p> <p>Additional areas could still be addressed. While DOAS collects several date fields that, if used in combination, can help calculate lost time at work, the agency does not employ a reliable indicator to identify that an employee was unable to work. The manual also does not establish any field to identify claims for settlement or prioritize the potential for settlement.</p>

<b>State Workers' Compensation Follow-Up Review, June 2020</b>	
<b>Original Findings/Recommendations</b>	<b>Current Status</b>
	The revision updated the indemnity rates and provides extensive and detailed screenshots of the current claims management system. These screenshots cover all system tabs and sections, provide color-coded completion standards, describe how to complete each data field, and designate the completion of several fields as mandatory.
<p><b>Claims are identified and evaluated for settlement individually.</b></p> <p>We recommended that the agency ensure consistency across claims, which would require the establishment of a standard methodology for calculating exposure for settlement evaluations.</p>	<p><b>Partially Addressed</b> – Updates to the RMS policy manual have created a standard methodology for calculating exposure. These updates explicitly prohibit the use of certain values when performing the calculation and specify a list of items to be completed.</p> <p>However, the RMS policy manual does not address how claims should be identified for settlement. Agency staff stated that the settlement process continues to rely upon claimant requests, DOAS attorney recommendations, and adjuster experience to identify the settlement potential of claims individually. RMS, therefore, has not established a method for comprehensively analyzing all claims and identifying settlement potential.</p> <p>RMS staff report that the next update to the case management system will allow the monitoring of numerous claims across the program rather than their current method of reviewing each claim independently.</p>
<p><b>Settlements are limited by the lack of funding.</b></p> <p>We recommended that the agency, and the General Assembly, ensure that the workers' compensation program has sufficient funding to allow claim settlements that are financially beneficial to the state.</p>	<p><b>Not Addressed</b> – DOAS has not received any additional funding for settlements, or for the replenishment of a fund reserve to cover settlement opportunities that may arise. Agency leadership reported that they have communicated with individual legislators and the legislative budget offices' staff on a regular basis regarding the financial benefits settling claims.</p>
<p><b>Settlements generate long-term savings for the state.</b></p> <p>In order to show the degree of potential state savings derived from settlements, we recommended that the agency track estimated savings for all claims settled.</p>	<p><b>Partially Addressed</b> – Currently, DOAS does not track potential for settlements in aggregate and RMS staff perform some limited manual tracking of the savings created by individual settlements. However, according to RMS staff, the pending data management system update, set to take effect in May 2020, will allow for the aggregation and analysis of savings across all claims.</p>
<p><b>13 Findings</b></p>	<p><b>1 Fully Addressed</b></p> <p><b>5 Partially Addressed</b></p> <p><b>1 Not Addressed</b></p> <p><b>6 No Recommendations</b></p>

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