

**STATE OF WEST VIRGINIA**

**FULL PERFORMANCE EVALUATION OF THE  
WORKERS' COMPENSATION DIVISION**

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**Duplicate Vendor Payments**

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**OFFICE OF LEGISLATIVE AUDITOR  
Performance Evaluation and Research Division  
Building 1, Room W-314  
State Capitol Complex**

**CHARLESTON, WEST VIRGINIA 25305  
(304) 347-4890**

PE98-16-108

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Performance Evaluation and Research Division

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November 1998

WEST VIRGINIA LEGISLATURE  
*Performance Evaluation and Research Division*

Building 1, Room W-314  
1900 Kanawha Boulevard, East  
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Antonio E. Jones, Ph.D.  
Director

November 15, 1998

The Honorable Edwin J. Bowman  
State Senate  
129 West Circle Drive  
Weirton, West Virginia 26062

The Honorable Vicki Douglas  
House of Delegates  
Building 1, Room E-213  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting a Full Performance Evaluation of the *Workers' Compensation Division*, which will be reported to the Joint Committee on Government Operations on Sunday, November 15, 1998. The issue covered herein is "*Duplicate Vendor Payments.*"

We conducted an exit conference with Workers' Compensation on October 29, 1998 and the Agency did not respond in writing by November 9, 1998 printing deadline as requested in the transmittal letter on page 23 of this report.

Should you have any questions, let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Antonio E. Jones".

Antonio E. Jones

AEJ/wsc

————— *Joint Committee on Government and Finance* —————



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**Issue Area 1: The Workers' Compensation Division Reports That It Has Retrieved \$1 Million of \$2.4 Million of Duplicate Payments Made When The Workers' Compensation Insurance System (WCIS) Was First Implemented In 1996.**

During the Legislative Auditor's Office performance review of the Workers' Compensation Division, including the review of the Occupational Pneumoconiosis Board, the Legislative Auditor's Office was aware that multiple incorrect medical payments had been made when the Workers' Compensation Insurance System (WCIS) was first implemented in 1996. The WCIS system was purchased from the accounting firm of Price Waterhouse. According to the Commissioner of the Bureau of Employment Programs (see Appendix A and Appendix B for correspondence between the Legislative Auditor and Commissioner):

In the mid-1990s, the Division realized that new software must be purchased in order to improve the internal controls of the Division, correctly record and account for transitions and provide better service to our customers. The WCIS software was selected. Price Waterhouse was awarded the design and installation contract for WCIS. It was determined that the Division should have the same software for claims management and the processing of medical invoices.

Although Price Waterhouse had installed the WCIS system in other states, West Virginia was the first state to implement a medical section of WCIS. According to BEP's Commissioner, the program during the testing phase functioned correctly. However, when the program was initially used from April 1996 to October 1996 duplicate medical payments were issued by the Workers' Compensation Division.

The BEP Commissioner also informed the Legislative Auditor's Office that BEP has been unable to generate a computer report of all duplicate payments. The Commissioner informed the Legislative Auditor's Office that:

A request to generate a report of all duplicate payments generated was made by our functional reviewer in the office of Medical Services on October 8, 1996. A program was written by our MIS staff to fulfill this request. However, our computer equipment at that time would not allow the report to be generated. The program required numerous lines of detail to be "read". Our MIS staff attempted on numerous occasions to generate the report but the fields to be checked were too numerous and the program would "lock-up". In August 1998 we began to implement new hardware. Prior to all the data being converted and users placed on the new hardware the report was generated. This report became available to our financial units in August 1996.

The Legislative Auditor's Office also asked BEP's Commissioner to respond to eight questions concerning this problem. Each question asked by the Legislative Auditor's Office is listed below with the Commissioner of the Bureau of Employment Programs' answers following each question.

1. ***What edit checks were altered/removed that were discovered to be at the root of the problem? Were other causes identified (if so, please elaborate)?***

“...An extensive testing plan was designed and followed. During the testing phase the edit for duplicate payments worked correctly. However, when this edit was moved into production a problem occurred. No edit checks were altered or removed. The edit simply did not work.”

2. ***What has the Bureau done to address the underlying cause of the problem?***

“When the problem was identified payments were immediately placed in a pending status to prevent additional payments. The duplicate payment edit was corrected by our in-house MIS staff with assistance from Price Waterhouse. The edit was successfully tested again and moved into production.

“The Division has also created a WCIS Security Committee that reviews WCIS security issues. This committee has added additional edits, limited the number of people that can enter invoices and defined the access for overrides to the medical payments systems.”

3. ***What has the Bureau done to identify these erroneous payments?***

“The report discussed above has been generated to identify duplicate payments. The Division staff is in the process of reconciling this report.”

4. ***What is the Bureau’s best estimate of the amount paid in error? Please provide any available documentation to support the estimate.***

“The Division estimates the duplicate payments to be \$2,431,263.65. Once the report is reconciled copies will be made available to you and your staff.”

5. ***What is the time period over which such overpayments occurred?***

“We estimate the duplicate payments occurred during the period of April 1996 to October 1996.”

6. ***Was the overpayment problem limited to certain vendor types? If so, what were they?***

“The problem was not limited to any specific vendor type.”



7. ***What has the Division done to recover all erroneous payments?***

“Numerous medical vendors contacted the Division about the problem. They were instructed to return the funds to the Division. The Division staff is now in the process of reconciling the duplicate payment report. When the reconciliation is completed the Division will invoice for the duplicate payments.”

8. ***How much has been recovered?***

“The Division estimates that \$1,002,511.83 has been recovered. We are in the process of reconciling the amount recovered. Once this report is completed we will provide you and your staff with copies. The Division plans to track amounts received for overpayments once all the invoices are generated.”

**Problem Not Disclosed In the 1997 or 1998 Financial Audit of the Workers’ Compensation Fund**

The Legislative Auditor’s Office examined the 1997 and 1998 annual financial audits of the Workers’ Compensation Fund to see if this problem had been previously reported. The Legislative Auditor’s Office found no disclosure or footnotes showing accounts receivable due to overpayments or duplicate payments or recovery of those payments. (These audits are required to be submitted annually to the Legislature.) The Legislative Auditor’s Office has requested the management letters from these audits to see if the problem was disclosed in the management letters.

**Employers Charged for Erroneous Payments**

Because medical procedures that were paid in duplicate are a claims cost, some employers in the State may have been charged for the Bureau’s errors. The current rate-making structure includes a three year “look back” period in the calculation of each employer’s experience modification factor. Employer losses during the “look back” period determine an employer experience modification factor. Since these medical procedures were charged in error, employers have the right to expect to be remunerated for the overcharge.

**Recommendation 1:**

*The Bureau of Employment Programs should inform the Joint Committee on Government Operations at the January 1999 interim meetings as to its collection efforts and whether it has been able to produce a report of all duplicate payments.*

**Recommendation 2:**

*The Bureau of Employment Programs should determine whether the \$2.4 million in duplicate payments was caused by errors within the Workers' Compensation computer system or was caused by a programming error in the software purchased from Price Waterhouse. If the problem was caused by a programming error in the software purchased from Price Waterhouse, the Bureau of Employment Programs should inform the Joint Committee on Government Operations at the January 1999 interim meetings whether it has attempted, or is seeking to attempt to be reimbursed by Price Waterhouse for the duplicate payments which have not been recovered and all costs associated with identifying and retrieving the \$1 million already recovered.*

**Recommendation 3:**

*Once the Bureau of Employment Programs has identified all duplicate payments, it should audit and adjust each affected employer's account to represent the true cost of each relevant claim and reimburse these employers for material amounts which may have been overcharged since 1996. In addition, the Division should take any steps necessary to ensure that these employers will not continue to be charged for these erroneous payments in the future. The Bureau of Employment Programs should inform the Joint Committee on Government Operations at the January 1999 interim meetings whether such actions have been taken and how it plans to determine what overcharges of premium are material enough to warrant refunds.*

**APPENDIX A:**  
**Legislative Auditor's Letter of Request**



**WEST VIRGINIA LEGISLATURE**  
*Joint Committee on Government and Finance*

**Building 1, Room E-132**  
**1900 Kanawha Boulevard, East**  
**Charleston, WV 25305-0610**  
**(304) 347-4800**  
**(304) 347-4819 FAX**



**Aaron Allred**  
**Legislative Manager**

September 28, 1998

Mr. William Vieweg, Commissioner  
Bureau of Employment Programs  
112 California Avenue, Room 610  
Charleston, West Virginia 25305-0112

	INITIALS	DATE	REFERENCE
PREPARED BY	AK	10/9/98	WC
CHECKED BY			
APPROVED BY	F. SC	10/13/98	L-44

Dear Commissioner Vieweg:

As a part of the performance evaluation of the Workers' Compensation Division, I am writing to be updated on a matter which my audit staff first became aware of in 1996. It is our understanding that shortly after the implementation of WCIS, certain edit checks were removed from the system causing duplicate payments to be made to various vendors, including doctors. It is also our understanding that on October 8, 1996 WCD staff requested, at Mr. Burdette's direction, MIS to identify duplicate payments so that recovery efforts could begin. As Commissioner of the Bureau of Employment Programs, I ask that you *provide us with the status of this request of the MIS Division as of today, September 28, 1998*. In addition, I ask that you respond to the following questions:

1. What edit checks were altered/removed that were discovered to be at the root of the problem? Were other causes identified (if so, please elaborate)?
2. What has the Bureau done to address the underlying cause of the problem?
3. What has the Bureau done to identify these erroneous payments?
4. What is the Bureau's best estimate of the amount paid in error? Please provide any available documentation to support the estimate.
5. What is the time period over which such overpayments occurred?
6. Was the overpayment problem limited to certain vendor types? If so, what were they?
7. What has the Bureau done to recover all erroneous payments?
8. How much has been recovered?

I would appreciate any answers you can provide to these questions by October 9, 1998.

Sincerely,

Aaron Allred



**APPENDIX B:  
Commissioner's Response to Letter of Request**





Cecil H. Underwood  
Governor

William F. Vieweg  
Commissioner



## West Virginia Bureau of Employment Programs

• Job Service/Job Training Programs • Labor Market Information  
• Unemployment Compensation • Workers' Compensation

*an equal opportunity/affirmative action employer*

October 21, 1998

Aaron Allred, Legislative Manager  
Performance Evaluation & Research Division  
West Virginia Legislature  
Building 1, Room W-314  
1900 Boulevard, East  
Charleston, WV 25305-0610

RECEIVED

OCT 23 1998

Legislative Manager

Dear Mr. Allred:

I have received your letter dated September 28, 1998, regarding the duplicate payment of medical invoices shortly after the implementation of WCIS. Computer problems did exist that generated duplicate payments to medical vendors. A request to generate a report of all duplicate payments generated was made by our functional reviewer in the office of Medical Services on October 8, 1996. A program was written by our MIS staff to fulfill this request. However, our computer equipment at that time would not allow the report to be generated. The program required numerous lines of detail to be "read". Our MIS staff attempted on numerous occasions to generate the report but the fields to be checked were too numerous and the program would "lock-up". In August 1998 we began to implement new hardware. Prior to all the data being converted and users placed on the new hardware the report was generated. This became available to our financial units in late August 1998.

In your letter you request responses to several questions. I would like to address them as follows:

***What edit checks were altered/removed that were discovered to be at the root of the problem? Were other causes identified(if so, please elaborate)?***

In the mid-1990's the Division realized that new software must be purchased in order to improve the internal controls of the Division, correctly record and account for transitions and provide better service to our customers. The WCIS software was selected. Price Waterhouse was awarded the design and installation contract for WCIS. It was determined that the Division should have the same software for claims management and the processing of medical invoices. The prior implementations of WCIS in other states did not include a medical section. Thus West Virginia was the first state to implement a medical section of WCIS. Price Waterhouse designed the system. An extensive testing plan was designed and followed. During the testing phase the edit for duplicate payments worked correctly. However, when this edit was moved into production a problem occurred. No edit checks were altered or removed. The edit simply did not work.

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***What has the Bureau done to address the underlying cause of the problem?***

When the problem was identified payments were immediately placed in a pending status to prevent additional payments. The duplicate payment edit was corrected by our in-house MIS staff with assistance from Price Waterhouse. The edit was successfully tested again and moved into production.

The Division has also created a WCIS Security Committee that reviews WCIS security issues. This committee has added additional edits, limited the number of people that can enter invoices and defined the access for overrides to the medical payments systems.

***What has the Bureau done to identify these erroneous payments?***

The report discussed above has been generated to identify duplicate payments. The Division staff is in the process of reconciling this report.

***What is the Bureau's best estimate of the amount paid in error? Please provide any available documentation to support the estimate.***

The Division estimates the duplicate payments to be \$2,131,263.65. Once the report is reconciled copies will be made available to you and your staff.

***What is the time period over which such overpayments occurred?***

We estimate the duplicate payments occurred during the period of April 1996 to October 1996.

***Was the overpayment problem limited to certain vendor types? If so, what were they?***

The problem was not limited to any specific vendor type.

***What has the Division done to recover all erroneous payments?***

Numerous medical vendors contacted the Division about the problem. They were instructed to return the funds to the Division. The Division staff is now in the process of reconciling the duplicate payment report. When the reconciliation is completed the Division will invoice for the duplicate payments.

***How much has been recovered?***

The Division estimates that \$1,002,511.83 has been recovered. We are in the process of reconciling the amount recovered. Once this report is completed we will provide you and your staff with copies. The Division plans to track amounts received for overpayments once all the invoices are generated.

Should you have any additional questions, please feel free to contact me.

Very truly yours,



William F. Vieweg  
Commissioner



**APPENDIX C:**  
**Transmittal Letter to Agency**



**WEST VIRGINIA LEGISLATURE**  
*Performance Evaluation and Research Division*

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1900 Kanawha Boulevard, East  
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Antonio E. Jones, Ph.D.  
Director

October 29, 1998

William F. Vieweg, Commissioner  
Bureau of Employment Programs  
Building 4, Room 610  
112 California Avenue  
Charleston, West Virginia 25305-0112

Dear Commissioner Vieweg:

This is to transmit a revised draft of the Performance Review of the Occupational Pneumoconiosis Board and a draft of an additional audit report concerning duplicate vendor payments made by Workers' Compensation in 1996. We would appreciate your response by November 9, 1998. It would be helpful if your response is organized according to the issue presented.

If there are any questions related to factual errors that need clarification please let me know. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Antonio E. Jones".

Antonio E. Jones

\_\_\_\_\_ *Joint Committee on Government and Finance* \_\_\_\_\_





**APPENDIX D:  
Agency Response**



**(Agency did not respond in writing by November 9, 1998 printing deadline as requested in the transmittal letter on page 23 of this report.)**

