SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 2532

SPONSOR: Banking and Insurance Committee and Senator Thomas

SUBJECT: Workers' Compensation

DATE: April 25, 2000 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Johnson	Deffenbaugh	BI	Favorable/CS
2.				
3.				
4.				
5.				

I. Summary:

For purposes of determining the assessment base for the Workers' Compensation Administration Trust Fund (which primarily funds the Division of Workers' Compensation) and the Special Disability Trust Fund (which reimburses carriers for second injuries), the committee substitute clarifies legislative intent for the terms, “net premiums,” and “net premiums collected” by stating that the terms have meant and continue to mean premiums arising from workers' compensation policies issued by an insurer in Florida as the primary insurance carrier *without* a deduction for ceded reinsurance premium transferred to another carrier for reinsurance purchased or any premium expense attributable to purchasing reinsurance.

The committee substitute lowers the maximum assessment rate for the Workers' Compensation Administration Trust Fund from 4 percent to 2.75 percent, effective July 1, 2000. The calculation for the assessment base would be determined based upon the anticipated expenses of the Division of Workers' Compensation for the next calendar year (2001), instead of for the prior fiscal year, and would be effective January 1, 2001. For the purpose of calculating the assessment, carriers would be required to use the full premium policy reported prior to the application of deductible discounts or credits. Ceded reinsurance premiums would also be included in the base used for calculating the assessment. The division would be authorized to recover under payments of assessments from a carrier for assessments levied against the carrier after July 1, 2000. The division would not be authorized to recover any past under payments of assessments related to ceded reinsurance premiums from a carrier for assessments levied against that carrier prior to July 1, 2000.

For purposes of determining the assessment base for the Special Disability Trust Fund and calculating the assessment due, ceded reinsurance premiums would be included. In the event a carrier *excluded* ceded reinsurance premiums from their Special Disability Trust Fund assessments on or before January 1, 2000, the carrier would not be required to pay assessments until the Division of Workers' Compensation notified each of these carriers of the impact of including

ceded insurance premium on their assessment. The division would not be authorized to recover any past under payments of assessments levied against any carrier that did not include ceded reinsurance premiums in their assessments *prior to that point in time* that the division advised the carrier of the appropriate assessment that should have been paid.

The committee substitute creates a Task Force on Workers' Compensation Administration for the purpose of evaluating the method in which the workers' compensation system is funded and administered. The Task Force would be comprised of 3 members appointed by the Governor (including one member serving as the chair), 2 members appointed by the President of Senate and 2 members appointed by the Speaker of the House of Representatives. A sum of $250,000 would be appropriated from the Workers' Compensation Administration Trust Fund to the Executive Office of the Governor to conduct a financial and operational analysis of the Division of Workers' Compensation that would be submitted to the Task Force. The Task Force would be required to submit their recommendations to the Governor, President of the Senate, and the Speaker of the House of Representatives by January 15, 2001.

The bill provides a severability clause so that in the event that any provision of the act or its application to any person is held invalid, the remaining provisions of the bill would not be affected.

This bill amends ss. 440.49 and 440.51, Florida Statutes, and creates yet undesignated sections of the Florida Statutes.

II. Present Situation:

Division of Workers' Compensation Funding and Special Disability Trust Fund
Pursuant to s. 440.015, F.S., the Division of Workers' Compensation, within the Department of Labor and Employment Security, is charged with administering the Workers' Compensation Law in a manner which facilitates the self-execution of the system and the process of ensuring a prompt and cost-effective delivery of payments. The legislation was intended to create ". . . an efficient and self-executing system . . . which is not an *economic or administrative* burden."

The Division of Workers' Compensation is primarily funded through assessments on insurance companies, self-insurance funds, assessable mutual companies, the Workers' Compensation Joint Underwriting Association, and self-insurers. Under the provisions of s. 440.51, F.S., the *net premiums collected* by the companies and the imputed amount of premiums for self-insured employers are used as the basis for calculating the assessment due. The assessments are deposited into the Workers' Compensation Administrative Trust Fund (WCATF). The WCATF assessment on net premiums collected, or net premiums imputed for self-insurers, may not exceed 4 percent, The 1998 assessment for the WCATF was 2.75 percent and the assessment for the current fiscal year is 3.48 percent.

The Special Disability Trust Fund (SDTF), also called the "second injury" fund, was created in 1955 as an incentive for employers to hire employees with pre-existing physical impairments (s. 440.49, F.S.). If an employee with a pre-existing injury was injured on the job, employers could make a claim to the SDTF to have a portion of the workers' compensation claim reimbursed by the SDTF. Entities are also subject to a 4.52 percent assessment (which is also the statutory cap) on net premiums collected that is used to finance the Special Disability Trust Fund.

In 1997, legislation was enacted which terminated the claims against the Special Disability Trust Fund, effective for injuries occurring on or after January 1, 1998 (ch. 97-262, L.O.F.). At that time it was estimated that the undiscounted liability of the Fund was $4.05 billion. (Undiscounted liability represents the cumulative amount of the claim payments at the time that the final claim payment is expected to be made.) As of December 31, 1998, the undiscounted liability was $3.60 billion, while the discounted liability of the Fund was $1.59 billion, using a 6 percent discount rate. (Discounted liability represents the current value of the losses adjusted to reflect investment income from December 31, 1998, to the final assumed payment.) According to a recent actuarial analysis by Milliman and Robertson, based on the assumption that the current 4.52 percent assessment rate would not be changed, it is estimated that the Special Disability Trust Fund would experience a positive cash flow in fiscal year 2013-2014. At that time, the current pay lag would have been eliminated and claims could be reimbursed as they are audited and approved.

Premium Assessment Base

The original workers' compensation statute, enacted in 1935, required carriers to pay the assessment based on "*gross earned* premiums." Two years later, in 1937, the statute was amended to specify that assessments were based on "*gross earned* premiums *collected*." Subsequently, revisions were made in 1953 and 1955 to require the assessments to be based on "*gross premiums collected*." In 1975, ch. 75-209, Laws of Florida, was enacted that changed the assessment base to "*net premiums collected*." However, the term, "net premiums," is not defined in ch. 440, F.S.

In 1994, Rule 38F-4.001, F.A.C., was amended to define net premiums written. At the public hearing, the issue of whether net premiums written would be net of ceded was discussed. Ultimately, the specific inclusion of ceded premium in the definition was rejected and the rule became effective on July 27, 1994, with net premiums written defined as "all premiums written less return premiums arising from policies issued by an insurer." The rule was subsequently repealed in December 1995. According to the division, the division policy, as late as December 1995 "was to follow its duly adopted rule having the force and effect of law and to assess ceded premiums." (Department of Labor and Employment Security Memorandum from Nancy Slayton, Office of General Counsel, to Laura Taylor, Division of Workers' Compensation, dated January 19, 1999)

In contrast, s. 624.509, F.S., requires insurers to pay a premium tax equal to 1.75 percent of the gross amount of premium receipts, omitting premiums on reinsurance accepted but *without deducting for reinsurance ceded to other insurers.*

Impact of Ceded Insurance on the Assessment Base

A controversy has recently arisen in the last few years involving approximately 25 insurers and self-insurance funds. They contend that the terms "net premiums collected" and "net premiums written" do not include premiums transferred (i.e., ceded) to reinsurers. These companies have requested approximately $74 million in refunds from the Department of Labor for alleged past overpayments of assessments, attributable to ceded premiums. Two of these companies, Riscorp

Insurance Company and Florida Hospitality Mutual Insurance Company, have filed lawsuits in circuit court regarding the refunds.

On September 29, 1998, the Office of the General Counsel of the Department of Labor and Employment Security issued an opinion regarding the statutory authority of the Division of Workers' Compensation statutory authority to assess carriers on ceded premiums. In that opinion, the department stated that the division did not have the authority to assess carriers on ceded premiums. Subsequently, on January 19, 1999, the department issued a modification of the previous memorandum regarding assessments on ceded premiums to specify that net premium written did not exclude ceded premiums, thereby including ceded premiums in the assessment base.

On September 22, 1999, the Division of Workers' Compensation issued a bulletin regarding the assessment calculation. Net premiums collected was interpreted to mean, by the division, all premiums, including those ceded to reinsurers, less any applicable discounts provided by law. In addition, the bulletin stated that "no carrier or self-insured employer is authorized to make or refuse to make assessment payments to the division based on their individual interpretations of Florida law." If a carrier or employer disagreed with the division's interpretation of the law, a carrier or employer was authorized to make a request for a refund once assessments have been timely paid.

The Division of Workers' Compensation recently engaged the Insurance Services Offices, Inc. (ISO), to evaluate funding issues related to the division. In a report, entitled, *Impact of Ceded Premium on Assessment Revenue*, dated February 29, 2000, ISO estimated that in the event current litigation is resolved in favor of the insurers, the division may be required to provide refunds in the range of \$114 - \$303 million for assessments paid on ceded insurance for the past 3 years. If the division is required to exclude refunds on premiums ceded to affiliated insurers, the refund would be approximately \$74 million for carriers and \$40 million for self-insured employers (\$144 million total). If the division is required to include refunds on premiums ceded to affiliated insurers, it is estimated that carriers could expect a total refund of approximately \$263 million and self-insured employers would expect a \$40 million refund (\$303 million total). The estimated \$40 million refund to self-insured employers is based on an employer "ceding" premium (purchasing excess insurance) for losses in excess of \$250,000 per claim.

In the event the court rules in favor of the division, the division has estimated that carriers may owe an additional \$25.4 million attributable to assessments not being paid on ceded premiums for the last 3 years.

The following advantages of including the ceded insurance in the assessment base were cited by ISO:

1. The clarification will reinforce the division's position that ceded premium may not be deducted from assessable premium and reinforce the division's efforts to collect assessments. This will increase the assessment revenue base, which in turn allows the WCATF assessment rate to be lower and the Special Disability Trust Fund deficit to be eliminated earlier than currently expected.

2. Using direct premium as the assessment base more closely matches revenue contributed with cost of services used for all types of insurers and self-insured employers.

3. It makes verifying the accuracy of reported assessable premium less difficult because the division would be able to compare reported amounts with statutorily mandated annual statement filed by insurers with the Department of Insurance.

In the report, ISO also noted the following disadvantages if the ceded premium is not included in the assessment base:

1. The assessment procedure continues to not charge national insurance companies in proportion to their claims costs. As more and more insurance companies deduct ceded premium from the premium assessment base, this will further aggravate the inequity.

2. Increases will be required in the WCATF assessment rate (until it reaches the statutory maximum of 4 percent) because assessment avoidance by some participants does not decrease cost; it simply shifts more of the cost to the remaining participants. The maximum assessment rate will need to be increased to maintain the funding of division functions.

3. The point at which it can be expected that the Special Disability Trust Fund can be fully funded will be delayed beyond the current estimate of 30 months. This is due to the 4.52 percent statutory rate cap for assessments and decreased revenues in the funding base. An alternative to increasing the delay would be to increase the assessment rate.

Impact of Large Deductible Policies

Additionally, in recent years many large individually self-insured employers have discontinued their self-insured status and purchased large-deductible insurance policies from an insurer. According to the division, the number of individually self-insured employers has been reduced from approximately 670 in 1996 to approximately 432 as of April 2000. The impetus for the switch to a large-deductible policy is the manner in which assessments for the Special Disability Trust Fund and WCATF are calculated. Each of these assessments is based on a premium -- either the net premium written or the net premium collected by an insurer (for insurance companies) or the premium a self-insurer would pay if insured (for individually self-insured employers). Switching to a large-deductible policy from self-insured status eliminates the assessment for the previously self-insured employer. Instead, the assessment is paid by the employer's new insurer based on the direct premium written, which is less than the normal premium calculated for the individually self-insured employer because of the size of the deductible.

According to the division, the premium base, which serves as the basis for Special Disability Trust Fund and WCATF assessments, has been reduced as a result of self-insured employers purchasing large-deductible policies and the fact that ceded reinsurance premiums have been excluded by some carriers. The premium assessment base has steadily declined in recent years, from the high of $3.61 billion in 1994, to $2.73 billion in 1999. Division representatives maintain that this continuing downward spiral will result in a shortfall in funding for the administration of the workers' compensation system and may lengthen the amount of time necessary to pay off Special Disability Trust Fund claims.

The Division of Risk Management within the Department of Insurance operates the casualty claims coverage program which provides workers' compensation coverage for all state employees. In January 1998, the division purchased a large deductible workers' compensation policy provided by North American Specialty Insurance Company at an annual premium of $598,000 (January 1, 1999-2000). North American pays the assessment to the Special Disability Trust Fund and WCATF based on this annual premium. According to representatives with the Division of Risk Management, prior to purchasing this large deductible policy, they estimate that the division would have paid a total assessment to both the trust funds of $4.8 million for fiscal year 1997-98.

Under current law, the effective date of the assessment rates as determined by the Division of Workers' Compensation is July 1 of each year. This date has caused problems for businesses and local governments because it is applied retroactively by the division, and businesses and governments have not been able to plan in advance for their workers' compensation program expenses. The division cannot actually determine the expenses for the WCATF, and thus the assessment rate, until several months *after* July because the audit of the Fund is not completed until the end of September. Notification to workers' compensation insurers and local governments of their assessment rate is not completed until October.

The Division of Workers' Compensation also engaged ISO to evaluate the impact of large deductibles. On February 15, 2000, ISO issued a report entitled, *Impact of Large Deductible Policies on Assessment Revenue*. By allowing the deduction of large deductible premium credits for purposes of determining the WCATF and Special Disability Trust Fund assessments, ISO concluded that the Florida law has:

- Resulted in a reduction of the otherwise assessable premium in fiscal year ending 1999 by approximately 23 percent;
- Resulted in a fiscal year 1999 WCATF assessment rate of 2.75 percent instead of 2.13 percent to maintain the same revenue stream;
- Reduced Special Disability Trust Fund revenue by $36 million in 1999 and $197 million over the last 6 years (the Special Disability Trust Fund assessment rate is already at its statutory maximum); and
- Resulted in smaller insured employers, smaller insurers, and all self-insured employers paying a disproportionately high share of the Division of Workers' Compensation costs, while a disproportionately low share of the division's costs are being borne by large insured employers (and their insurers)

The Division of Workers' Compensation provided the following preliminary estimate of Workers' Compensation Administration Trust Fund revenues, if no legislative changes are made this year:

Assessment Period	Est. Net Collected Premiums Reported to the Division*	Estimated New Revenues Needed**	Estimated Assessment Rate	Anticipated Revenue to be Received
7/00 - 6/01	$2,746,000,000	$101,082,000	3.68%	$101,082,000
7/01 - 6/02	$2,679,000,000	$100,993,000	3.77%	$100,933,000

* Estimated Net Collected Premiums have been projected for the division's historical premium databases and assumes that there will be no changes in reporting patterns already established by carriers and self-insured funds.
**Estimated new revenue needed includes a reserve for the first quarter of the next fiscal year and assumes that fiscal year expenditures will remain level (at the FY 1999-00 estimates).

III. Effect of Proposed Changes:

Section 1. Creates an undesignated section of the Florida Statutes, to clarify legislative intent regarding the terms, “net premiums,” and “net premiums collected” by stating the terms meant and continues to mean premiums arising from workers' compensation policies issued by an insurer in Florida as the primary insurance carrier *without* a deduction for ceded reinsurance premium transferred to another carrier for reinsurance purchased or any premium expense attributable to purchasing reinsurance.

Section 2. Amends s. 440.49, F.S., relating to the Special Disability Trust Fund, to provide that carriers that have excluded ceded premiums from their assessments on or before January 1, 2000, no assessment will be paid by the carriers until the division notifies each of the carriers of the impact that the inclusion of ceded premiums has on the assessment. The section also prohibits the division from recovering any past under payments of assessments levied against any carrier that excluded ceded reinsurance premiums from their assessment prior to the time that the division notifies the carrier of the appropriate assessment that should have been paid.

Technical, conforming changes are made to replace references to insurance companies with the term, “carriers.”

Section 3. Amends s. 440.51, F.S., relating to the Workers' Compensation Administration Trust Fund, to require the division to determine the assessment rate by June 30 of each year for the anticipated expenses for the next *calendar* year, rather than as soon as possible after July 1 of each year, for the expenses for the preceding *fiscal* year.

The assessment rate will take effect January 1 of the next calendar year and will be included in the workers' compensation rate filings approved by the Department of Insurance for the following calendar year. The assessments are required to be paid on a quarterly basis.

The maximum assessment for the trust fund is lowered from 4 percent to 2.75. When reporting deductible policy premium for purposes of computing assessments levied after January 1, 2001, the full policy premium value is required to be reported, prior to the application of deductible discounts or credits. The term, “full policy premium value,” is not defined.

The division is authorized to recover under payments of the assessment from a carrier for assessments levied after July 1, 2000. The division is prohibited from recovering any past under payments of assessments related to ceded reinsurance premiums from a carrier for assessments levied prior to July 1, 2000. The division is authorized to allow a carrier to remit any underpayment of assessments for assessments levied after July 1, 2000, according to a payment schedule approved by the division.

Section 4. This section creates the Task Force on Workers' Compensation Administration for the purpose of evaluating the funding and administration of the workers' compensation system. The Task Force will be comprised of 3 members appointed by the Governor, one of whom shall serve as chairperson; 2 members appointed by the President of the Senate, and 2 members appointed by the Speaker of the House of Representatives. Appointments are required to be made by July 1, 2000. The Task Force is required to submit recommendations to the Governor, President of the Senate, and the Speaker of the House, addressing the following issues by January 1, 2001:

1. The type of funding mechanism for the administration of the workers' compensation system.
2. The most cost-effective manner for using the funds for administering the workers' compensation system.
3. The types of services, functions, or entities should be funded as part of the administration of the workers' compensation system.
4. Possible cost-savings that could be achieved in the administration of the workers' compensation system.
5. Possible organizational changes affecting the administration of the workers' compensation system which would result in greater efficiency.

The Executive Office of the Governor is required to contract for the analysis of the Division of the Workers' Compensation, including staffing, revenues, expenses, reliability of financial records, and the efficiency of internal controls and procedures. This analysis is required to be completed and submitted to the Task Force no later than September 1, 2000. The sum of $250,000 is appropriated from the Workers' Compensation Administration Trust Fund to the Executive Office of the Governor for the purpose of funding this analysis.

Section 5. This section provides that if any provision of this act or its application to any person or circumstance is held invalid, the invalidity will not affect other provisions or applications of the act and the provisions of this act are severable.

Section 6. Except as otherwise provided in this act, the act will take effect July 1, 2000.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

When a bill changes existing law, it is presumed to apply prospectively, unless the Legislature expresses intent that the bill be applied retroactively. When the Legislature expresses an intent that a bill be applied retroactively, constitutional issues of due process are raised because the bill may affect vested rights, create new obligations, or impose new penalties.[1]

When a bill does not change existing law, but merely clarifies the Legislature's original intention of the existing law, there is no change to apply retroactively and, accordingly, there are no due process concerns.[2]

This bill establishes two statements providing clarification of the Legislature's intent with respect to terms currently used in Chapter 440, F.S. The bill contains no express statement that the bill would apply retroactively, presumably because the Legislature does not intend to change existing law, but merely to clarify its original intent.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

The assessment rate for carriers and self-insured employers for purposes of the Workers' Compensation Administrative Trust Fund is lowered from 4 percent to 2.75 percent, effective January 1, 2001. However, the assessment base subject to the assessment is expanded to include the "full policy premium value" prior to the application of deductible discounts or

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[1] See Metropolitan Dade County v. Chase Federal Housing Corporation, 24 Fla. L. Weekly S267 (Fla. 1999).

[2] See e.g., Asphalt Pavers, Inc., v. Department of Revenue, 584 So.2d 55, (Fla. 1st DCA 1991); State ex rel. Szabo Food Services, Inc. of North Carolina v. Dickinson, 286 So.2d 529, 531 (Fla. 1973) ("The language of the amendment . . . was intended to make statute correspond to what had previously been supposed or assumed to be the law"); Williams v. Hartford Accident and Indemnity Company, 382 So.2d 1216, 1220 ("[T]he timing and circumstances of an enactment may indicate it was formal only and served as a legislative clarification or interpretation of existing law, and thus such an enactment may even suggest that the same rights existed before it.").

credits, in order to capture the high deductible policies. The bill also clarifies that it is still the intent of the Legislature for the assessment base to include ceded reinsurance premiums transferred to an insurance company for reinsurance purchased or any premium expense attributable to purchasing reinsurance. (See Public Sector, also.)

B. Private Sector Impact:

Contingent upon the outcome of the court cases involving assessing ceded premiums, carriers may be eligible for refunds in the range of $114 - $303 million, if ceded premiums are excluded from the assessment base. However, if the court rules that ceded premiums are included in the assessment base, an estimated $25 million in additional assessment revenue would be due from carriers, according to the ISO study on ceded premiums. By clarifying legislative intent, the bill may make it more likely that a court would rule that ceded premiums are included in the assessment base.

C. Government Sector Impact:

In the event the court rules that ceded premium is included in the assessment base, carriers would owe the Division of Workers' Compensation approximately $25 million in assessment revenues that were not paid during the last 3 years. By clarifying legislative intent, the bill may make it more likely that a court would rule that ceded premiums are included in the assessment base.

Without the bill, it may be more likely that a court would determine that "net premiums collected" and "net premiums written" do not include premiums ceded to reinsurers. In that event, the Division of Workers' Compensation could be responsible for refunding approximately $74 million to the companies currently requesting refunds. The Division of Workers' Compensation could also be responsible for refunding money to other companies who paid assessments on ceded premiums, but have not yet requested refunds. According to Insurance Services Office, Inc., refunds to companies could be in the range of $114 - $303 million. In order to pay refunds, the division would need a significant increase in the assessment or experience a significant decrease in expenditures from the WCATF and Special Disability Trust Fund.

In addition, there could also be a negative recurring fiscal impact on the WCATF and Special Disability Trust Fund in that insurers and self-insurance funds, that were not already deducting ceded premiums, would deduct ceded premiums before reporting to the Division of Workers' Compensation. The result would be a reduced premium base upon which assessments could be levied. If the statutory assessment caps on the WCATF and Special Disability Trust Fund assessments are not raised, WCATF and Special Disability Trust Fund revenues would decline. Also, some insurers and self-insurance funds could avoid paying future assessments by simply ceding all of it premiums to a reinsurer.

According to the Division of Workers' Compensation, the anticipated revenues will not change significantly due to the proposals in CS/SB 2532 because the WCATF assessment rate is determined by targeting a dollar amount of new revenue needs and then dividing by the estimated premium base. This means that, as the premium base increases, the assessment rate must be decreased in order to collect the same, or practically the same, amount of revenue. The Division of Workers' Compensation provided the following estimated impact of the implementation of CS/SB 2532 (adds back the ceded premium not currently reported as well as the current large deductible premium credit*):

Calendar Year	Est. Net Collected Premiums (current law)	Est. Additional Premiums, if Ceded Premiums Reported	Additional Est. Premium Included, Without Large Deductible	Total Adjusted Net Collected Premiums with Both Changes	Est. Net Revenue Needed	Adjusted WCATF Rate	Anticipated Assessment Revenue with Changes
1/01-12/01	$2,746,000,000	$201,072,226	$838,382,351	$3,785,454,576	$101,082,000	2.67%	$101,071,637
1/02-12/02	$2,679,000,000	$202,247,100	$839,323,141	$3,720,570,241	$100,993,000	2.71%	$100,827,454
*The above estimate for the amount of ceded premium not currently reported and the amount of large deductible premium credits currently applied have been derived from ISO reports. These estimates have been modified to reflect projections on a calendar years assessment basis and may need to be modified, after further review.							

The estimates provided in the table, above, can be compared to the current law estimates, which are noted in the Present Situation section of the analysis.

The committee substitute appropriates a sum of $250,000 from the Workers' Compensation Administration Trust Fund to the Executive Office of the Governor to conduct an operational and financial analysis of the Division of Workers' Compensation. This analysis would be submitted to the Task Force by September 1, 2000.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The term, “full policy premium, “ is used in the bill for purposes of calculating the assessment due; however, the term is not generally used in the insurance industry and is not defined in the bill, chapter 440, F.S., or the Insurance Code. The bill does specify that the full policy premium value must be reported prior to the application of deductible discounts or credits.

The scope of the budgetary and operational analysis of the Division of Workers' Compensation by the Executive Office of the Governor appears to duplicate some of the scope of operational audits generally conducted by the Office of the Auditor General. Operational audits are conducted by the Office of the Auditor General to evaluate management's performance in administering assigned responsibilities in accordance with applicable laws and rules to determine the extent to which the *internal control*, as designed and place in operation, promotes and encourages the achievement of management's control objectives in the categories of compliance, economic and *efficient operations*, *reliability of financial records* and reports, and safeguarding of assets.

VIII. Amendments:

None.