

**South Carolina
Workers' Compensation
Commission**

**ANNUAL
ACCOUNTABILITY
REPORT**

Fiscal Year 2001-2002

SECTION I
EXECUTIVE SUMMARY

Basic Description of the Agency

Created on September 1, 1935, the Workers' Compensation Commission administers and enforces South Carolina's workers' compensation law. The basic premise and purpose of the law is to provide a fair, equitable, and timely system of benefits to injured workers and their employers. The Workers' Compensation Act serves to relieve employers of the liability for common-law suits involving negligence in exchange for becoming responsible for medical costs and lost wages of on-the-job injuries, regardless of fault.

Historically, six basic objectives underlie the workers' compensation laws:

1. Provide sure, prompt, and reasonable income and medical benefits to work-related accident victims, or income benefits to their dependents, regardless of fault;
2. Provide a single remedy and reduce court delays, costs, and judicial workloads arising out of personal injury litigation;
3. Relieve public and private charities of financial demands incident to uncompensated occupational accidents;
4. Minimize payment of fees to lawyers and witnesses as well as time-consuming trials and court appeals;
5. Encourage maximum employer interest in safety and rehabilitation through an appropriate experience-rating mechanism; and,
6. Promote frank study of the causes of accidents (rather than concealment of fault) in an effort to reduce preventable accidents and human suffering.

It is the responsibility of the Commission to administer the South Carolina Workers' Compensation Law, generally found in Title 42 of the Code of Laws of South Carolina. In accordance with the Administrative Procedures Act, the Commission also promulgates rules and regulations necessary to implement the provisions of Title 42.

1. Major Achievements in FY '01-02

When compared to other states, South Carolina has moderate workers' compensation benefits (neither high or low) with relatively low insurance premium costs for employers. In national comparisons, both overall and within the manufacturing sector, South Carolina premium rates are consistently among the lowest in the country;

Publication of all memos of public interest for workers' compensation in South Carolina are now located on our web page www.wcc.state.sc.us, reducing printing and postage costs;

Multiple use of hearing notice mailings communicate important information to interested parties, reducing printing and postage costs;

Survived the fiscal year without layoffs, despite appropriated funds cuts of almost \$740,000;

Began enforcement of penalties for failure to file required 12M reports;

Relocation of agency for five months during complete renovations to existing leased property, returning to a better environment for both stakeholders and employees, with little to no disruptions to the general public;

Managed turnover of three commissioners with little to no disruption to stakeholders; and

Proposed and passed a budget proviso allowing the agency to create a centralized mailbox system for stakeholders, minimizing associated costs and resources.

Began initial analysis of specially-designed database to examine the outcome of enhancing or redesigning the system completely to more effectively and efficiently meet the needs of the Commission and its stakeholders.

2. Mission and Values

Our Vision

Be the driving force in a workers' compensation system of excellence that delivers superior service to employers and their workers, thereby enhancing economic development in South Carolina.

Our Mission

Provide an equitable and timely system of benefits to injured workers and to employers in the most responsive, accurate, and reliable manner possible.

To accomplish this mission, the South Carolina Workers' Compensation Commission will:

- Administer the workers' compensation laws of this State in a fair and impartial manner;
- Collect the revenue due the State;
- Recommend improvements and changes to the laws administered;
- Ensure a professionally-trained staff of employees;
- Continually strive to improve the quality of services and products; and,
- Provide guidance to foster an understanding of and compliance with the workers' compensation laws of the State of South Carolina.

3. Key Strategic Goals for Present and Future Years

- Improve the timeliness and accuracy of benefits to injured workers by receiving and processing initial reports of injuries, eliminating insurer submission errors, reviewing settlements, lump sum awards and attorney fee petitions, collecting relevant statistical information, and closing all claims;
- Improve the length of time it takes to set 60-day hearings, merit hearings, appellate reviews, informal conferences;
- Improve the length of time to resolve contested issues between parties;

- Improve the length of time to resolve claims initially reported as uninsured;
- Increase savings on total medical cost while preserving worker access to quality health care;
- Provide training to interested customers/stakeholders on workers' compensation processes; and
- Complete review and revamping of 12-year-old computer database that houses all records for the agency.

4. Opportunities and Barriers That May Affect Agency's Success In Fulfilling Its Mission and Achieving Its Strategic Goals

- During the process of searching for national comparison data to establish benchmarks for process cycle times, it was determined that a number of states do not track similar information. In fact, many other states look to our successes as a means of comparison.
- Information is available to compare South Carolina, both regionally and nationally, to other states to evaluate total medical costs and reimbursement rates at a percentage above Medicare.
- Information is available to compare South Carolina, both regionally and nationally, to other states to evaluate premium costs and benefits available to injured workers.
- Substantial budget cuts have resulted in dramatic delays in the various process cycle times.
- Numerous vacancies which cannot be filled due to budget cuts and fiscal constraints have led to an increase in the length of time it takes to set hearings, which may substantially and negatively impact injured workers in this State. This will cause an increased strain on diminishing resources for the economically impaired.
- Increased number of reported accidents could result in an increased number of requests for hearings, further delaying the time it takes to set hearings.
- Loss of good will with all stakeholders will result from delays in process cycle times.

SECTION II
BUSINESS OVERVIEW

1. **Number of Employees:** 74
Number of FTE's: 81.10

2. **Operation Location**

- a. Main: South Carolina Workers' Compensation Commission
1612 Marion Street, Columbia, South Carolina 29201
- b. Sites: All 42 Counties (sites of actual workers' compensation hearings)

3. **Expenditures/Appropriation**

Base Budget Expenditures and Appropriations

Major Budget Categories	00-01 Actual Expenditures		01-02 Actual Expenditures		02-03 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$3,177,458	\$2,878,843	\$3,063,346	\$2,696,276	\$3,088,732	\$2,630,698
Other Operating Expenses	\$1,150,239	\$476,243	\$959,818	\$123,441	\$1,054,090	\$90,600
Special Items	\$-0-	\$-0-	\$-0-	\$-0-	\$4,563	\$4,563
Permanent Improvements	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-
Case Services	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-
Distributions to Subdivisions	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-
Fringe Benefits	\$778,081	\$705,632	\$826,487	\$735,974	\$831,240	\$752,764
Non-recurring	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-
Total	\$5,105,778	\$4,060,718	\$4,849,651	\$3,555,691	\$4,978,625	\$3,478,625

Other Expenditures

99-00 None
00-01 None

4. Key Customers

The Commission has identified its two most important customer groups: South Carolina's employers and their employees. Other customers who are involved in the workers' compensation system and provide services of one type or another to employers and their employees include, but are not limited to: Commission employees, United States Congressional delegation, South Carolina legislative delegation, insurance companies, self-insured funds, third-party administrators, attorneys, physicians, hospitals, other state workers' compensation agencies, the Department of Commerce, the Employment Security Commission, the Department of Vocational Rehabilitation, the State Attorney General's office, the State Department of Labor, Licensing & Regulation, the Uninsured Employers Fund and the Second Injury Fund, the FBI and the U.S. Office of the Attorney General, the Social Security Administration, and the State Accident Fund.

5. Key Suppliers

- Insurance companies;
- Self-insured funds;
- Third-party administrators;
- Attorneys;
- Physicians;
- Hospitals;
- Other state workers' compensation agencies;
- The Department of Commerce;
- The Employment Security Commission;
- The Department of Vocational Rehabilitation;
- The State Attorney General's office;
- The State Department of Labor, Licensing & Regulation;
- The Uninsured Employers Fund and the Second Injury Fund;
- The FBI and the U.S. Office of the Attorney General;
- The Social Security Administration; and,
- The State Accident Fund

6. Description of Major Products and Services

The Workers' Compensation Commission is a highly specialized, single purpose organization with three programs: Claims, Judicial, and Insurance & Medical Services. Each of the program areas has goals that link it to the mission of the agency. The Commission's mission is linked to its program goals by a common purpose and commitment to the principles of equity, fairness, timeliness, accuracy, and reliability that are fundamentally inherent in a state regulatory system that requires the participation of almost every employer and employee in South Carolina. Because of the Commission's singular purpose, its programs are inextricably joined together in one single processor system.

The Commission manages a system of benefits by holding hearings and informal conferences to resolve contested issues; monitors the management of all claims to ensure that benefits are paid accurately and timely; administers a self-insurance alternative for South Carolina employers; ensures compliance with the Workers' Compensation Act; establishes medical fee schedules containing medical costs while assuring access to quality health care.

7. Organizational Structure

Commissioners

The Commission consists of seven members appointed by the Governor with the advice and consent of the Senate for terms of six years and until their successors are appointed and qualified. The Governor, with the advice and consent of the Senate, designates one commissioner as chairman for a term of two years and the chairman may serve two terms in a six-year period, but not consecutively. The chairman is the chief executive officer of the Commission and responsible for implementing the policies established by the Commission in its capacity as the governing board.

The Commissioners are responsible for hearing and determining all contested cases, conducting informal conferences, approving settlements, and hearing appellant applications. In their capacity as administrative law judges, the commissioners must conduct the legal proceedings in the county in which the claimant was injured. For administrative purposes, the state is divided into seven districts. Commissioners are assigned to a district for a period of two months before being reassigned to another district. During the course of a fourteen-month period, the commissioners serve in each of the state's forty-six counties.

It is the responsibility of the Commission to administer the South Carolina Workers' Compensation Law, generally found in Title 42 of the Code of Laws of South Carolina. In accordance with the Administrative Procedures Act, the Commission also promulgates rules and regulations necessary to implement the provisions of Title 42.

Executive Director

The day-to-day administration and operation of the Commission is the responsibility of the executive director who is appointed by and serves at the pleasure of the seven commissioners acting in their capacity as the board of directors of the agency. The executive director functions as the Commission's chief operations officer.

Under the general supervision and management of the executive director are the Commission's six functional departments: (1) Administration, (2) Claims, (3) Insurance & Medical Services, (4) Judicial, (5) Legal, and (6) Information Services. Each department is under the supervision of a director and may be organized into one or more operational divisions.

Administration

The Administration Department is responsible for a variety of internal programs, including finance, budgeting, human resources, purchasing, inventory, facility maintenance, motor vehicles, mail and printing, office services, and affirmative action, as well as administrative operations and decision-making processes of the Commission.

Judicial

The Judicial Department is responsible for scheduling contested matters and viewings before a commissioner and for scheduling appeals before an appellate panel of commissioners. Case preparation in anticipation of a hearing consists of reviewing a file, requesting additional documentation from the parties, preparing a case summary, sending notices to the parties, and maintaining the docket. The Commission's claims mediation services also are a responsibility of the Judicial Department.

Claims

The administration and management of accident reports and any resulting claims are responsibilities of the Claims Department. After an accident is reported to the Claims Department, claims personnel monitor its progress through the system at various stages. Individual case records are reviewed to ensure that the requirements of the Workers' Compensation Act and the rules and regulations of the Commission are being observed. Conflicts of a non-judicial matter are often resolved in the Claims Department.

Insurance and Medical Services

The Department of Insurance and Medical Services is responsible for maintaining and monitoring workers' compensation insurance coverage records for all employers, enforcing compliance with the Act, administering the workers' compensation self-insurance program, establishing payment systems and fee schedules for medical providers, and resolving disputed medical bills. The Coverage Division maintains insurance records for employers who purchase coverage from commercial insurance carriers. The responsibility for investigating uninsured employers to determine if they are subject to the workers' compensation law is the responsibility of the Compliance Division. Under certain conditions, South Carolina employers may self-insure themselves against losses resulting from on-the-job injuries. Qualifying and regulating the self-insured employers is the responsibility of the Self-Insurance Division. The department's Medical Services Division is responsible for maintaining the fee schedules that regulate charges by doctors and hospitals and for approving various fees and charges in accordance with the established schedules.

SECTION III
ELEMENTS OF
MALCOLM BALRIDGE AWARD CRITERIA

Category I – Leadership

The Executive Leadership Team of the South Carolina Workers' Compensation Commission is comprised of the Executive Director, Department Directors, and General Counsel. Executive leadership is crucial to direction setting, monitoring progress, measuring successes, and accomplishing our mission.

The Commission's vision statement projects the standards the agency aspires to meet:

To be the driving force in a workers' compensation system of excellence that delivers superior service to employers and their workers, thereby enhancing economic development in South Carolina.

Executive leaders meet weekly to discuss long and short-term direction and performance expectations. The environment of these meetings is one of open communication and mutual contribution toward achieving desired successes. Executive leaders are expected to conduct similar meetings with their respective departments to maintain open lines of communication, encourage input from employees, and increase interaction between management and employees, all in an effort to foster a more positive attitude about service.

Executive leadership works to foster individual productivity, establish performance expectations through communication and through one-on-one conferences with employees. Weekly executive leadership meetings provide for the identification of potential problems that affect all Commission stakeholders. The Executive Director also conducts status meetings with Executive Leaders to discuss departmental issues, work process improvement ideas and to obtain general feedback on leadership effectiveness. Each department displays the Commission's vision and mission statements, along with the department's individual mission statement to continuously apprise stakeholders of the standards their organization and employees strive to achieve.

During the fiscal year, Executive Leadership has had to work closely to manage limited resources and increased work loads due to severe budget cuts. Executive Leadership, along with all seven commissioners, set the example following the March 2002 mid-year budget cuts by taking a minimum of five days of voluntary furlough. The remainder of the agency staff followed suit, resulting in \$55,550 in savings, which covered almost all the mid-year cut.

Executive Leadership works to foster individual productivity and communication, and to establish performance expectations through one-to-one conferences with employees. Weekly Executive Leadership meetings provide for the identification and team resolution of potential problems that affect all Commission stakeholders. In addition, the Executive Director maintains an "open door" policy of availability to all employees. Executive leadership has worked hard in each department to establish job notebooks that outline job and work processes. These manuals assist in providing on-the-job training for new employees and cross-training for current employees.

Agency-wide communication is also effectuated by an internal e-mail system, use of memorandums and a monthly publication by the Executive Director's office of an internal newsletter for Commission employees, which highlights achievements, successes, events and exemplary endeavors by the agency's employees.

The Commission encourages its employees in leadership, training and other educational initiatives. The Executive Director and five department directors have graduated the Executive Institute. The agency supports the Associate Public Manager and Certified Public Manager programs; the Executive Director and several staff members have received their credentials and one employee has completed the CPM program. In addition, the agency supports employee participation in various professional associations and attendance at educational seminars. While agency financial support has waned for attendance at educational seminars, the agency continues to support the efforts of any employee by creating an environment that allows the employee the freedom to participate and attend such functions.

Commission employees routinely participate in community events. The agency is a long-term supporter of the United Way, and our United Way Campaign during this fiscal year was a very successful, raising a total of \$5,236 for the campaign. Commission employees also sponsored a hot dog lunch for the March of Dimes, and a number of employees participated in the walk for that event. The agency volunteered in the Salvation Army Red Kettle Campaign and sponsored a kettle for one month during lunch hours at a local eatery. Many employees donated their lunch hour to help make this worthwhile endeavor a success. The Community at large receives the benefits of our employees giving spirit through service with church boards, Red Cross Blood Drives, Girl and Boy Scouts, National Guard and Reserves and other services oriented organizations. The Commission has a generous heart, and employees are always looking for ways to make life a little better for those less fortunate.

Employees of the Commission have access to numerous health programs, including “Prevention Partners.”

Commission employees sit on various boards and associations, such as the Procurement Review Panel, the South Carolina Workers’ Compensation Educational Association, the Southern Association of Workers’ Compensation Administrators, the South Carolina Occupational Safety Council, and the State Employee Grievance Committee.

The Commission has identified its two most important customer groups: South Carolina’s employers and their employees. Other customers who are involved in the workers’ compensation system and provide services of one type or another to employers and their employees include, but are not limited to: Commission employees, United States Congressional delegation, South Carolina State legislators, insurance companies, self-insured funds, third-party administrators, attorneys, physicians, hospitals, other state workers’ compensation agencies, the Department of Commerce, the Employment Security Commission, the Department of Vocational Rehabilitation, the State Attorney General’s office, the State Department of Labor, Licensing & Regulation, the Uninsured Employers Fund and the Second Injury Fund, the FBI and the U.S. Office of the Attorney General, the Social Security Administration and the State Accident Fund.

Category II – Strategic Planning

Beginning in 1996, the Commission began to develop a strategic plan for the purpose of aligning all of the organization’s programs and policies for continuous improvement. All agency employees were participants in the process. After articulating agency vision and mission statements for our departments and divisions, each employee’s position description was rewritten to link individual duties and responsibilities with the mission of a particular work group. Employee evaluations were revised to reflect performance indicators linked to the specific job description and ultimately to the organization’s mission. In June 1998, the Commission awarded salary increases based on performance for those employees meeting or exceeding performance goals.

The development of performance measures has helped the Commission track and evaluate its progress, successes, and significant achievements. Cross-functional teams were created during the initial phase of the strategic planning process charged with examining programs and work processes. It was from this effort that the Commission first identified its key business drivers and key performance measures. The Commission also began an effort to establish and implement individual staff development plans as guided by key business indicators. An ongoing effort has been made to refine key business drivers and gather baseline data to present as part of these reports. However, during the research process, it was determined that for much of the data captured and tracked, the Commission is the leader, as other states look to our successes as a means of comparison, on many key business drivers. The Executive Leadership is committed to revisiting the strategic planning and development process, pursuant to the Malcolm Baldrige criteria to further the processes necessary for the South Carolina Workers’ Compensation Commission to be the driving force in a workers’ compensation system of excellence which delivers superior service to South Carolina’s employers and their workers.

During the upcoming fiscal year, due to substantial budget cuts, maintaining an almost 10% vacancy rate, the loss of a wealth of information and institutional knowledge due to retirements, and the possibility of a reduction in force, the Commission will have to continue its focus on a review of work processes. The focus of this review will be on revising, eliminating or adding processes which would ease the burden on Commission employees and continue to allow for hearing process cycle times to remain constant or be further reduced. This may include a re-organization of the entire agency staff. This would positively affect numerous stakeholders, in that cases would continue to be resolved quickly. Quick resolution of claims eases financial burdens and emotional stresses on injured employees; reduces costs for the employer, which may result in lower workers' compensation premiums; reduces expenses for the carrier, which allows the carrier to offer lower premium rates to employers; and, allows medical providers to receive prompt payment for services rendered, thereby ensuring continued availability of quality medical care for injured workers.

Category III – Customer Focus

The Commission has identified its two most important stakeholder groups: South Carolina employers and their employees. Other stakeholders include, but are not limited to:

- Workers' Compensation Commission Employees;
- South Carolina's Congressional delegation;
- State Legislators;
- Insurance companies;
- Self-insured funds;
- Third-party administrators;
- Attorneys;
- Physicians;
- Hospitals;
- Other state workers' compensation agencies;
- The Department of Commerce;
- The Employment Security Commission;
- The Department of Vocational Rehabilitation;
- The State Attorney General's office;
- The State Department of Labor, Licensing & Regulation;
- The Uninsured Employers Fund and the Second Injury Fund;
- The FBI and the U.S. Office of the Attorney General;
- The Social Security Administration; and,
- The State Accident Fund.

One of the Commission's primary responsibilities is coordinating the unique efforts and contributions of all parties for the express purpose of providing workers' compensation benefits to injured workers. A close examination of the goals, objectives, and performance measures of each program will reveal the Commission is committed to a system of benefits that is responsive, expedient, accurate, and reliable. Since workers' compensation involves more than 92,000 employers and 1.6 million workers in this State, the success of our programs is critical to the welfare of each man or woman injured on the job, and to the overall economic health and development of South Carolina. In order to measure the level of customer satisfaction, Commission employees routinely do informal follow up with stakeholders. The Commission will continue to examine ways to conduct a more formalized, systematic survey within budgetary constraints during future fiscal years.

The Commission is committed to providing an environment to foster communication and education among its stakeholders, within current budgetary restraints. In that regard, the Commission's series of one-day seminars on claims management, Claims Administration Made Easy, was temporarily discontinued and only the publication was marketed to interested individuals. Commissioners and Executive Staff made presentations at the 25th Annual Workers' Compensation Educational Conference sponsored by the South Carolina Workers' Compensation Educational Association. The Commission also teamed up with the Educational Association to co-sponsor the 23rd Annual Worker's Compensation Medical Seminar, a three-day event devoted to medical issues relevant to workers' compensation.

The Commission has developed, and continues to expand, a website which allows stakeholders to obtain information regarding the Workers' Compensation Commission. In addition, stakeholders may initiate contact with the agency through the use of an e-mail system where questions, complaints and concerns can be submitted to any department, including the Executive Director and the Chairman. Responses are usually made immediately or within 24 hours of the receipt of the inquiry. Due to increased availability of the internet, the number of inquiries and "hits" on the website have increased as represented by the increase in outside e-mail contact with the Commission.

A variety of methods are used to determine the needs and expectations of stakeholders and to provide a means of communicating with the Commission, including: telephone and written correspondence; participation in public forums; monitoring legislative activity; stakeholder visits; interviews; informational brochures; publication of "Commission Update" on an annual basis; publication of the Commission's Annual Report; sponsored conferences, publication of workers' compensation system information; agency website; and on-line communications. The majority of Commission employees have routine, daily contact with stakeholders, and the leadership places an important emphasis upon the delivery of good customer service to all users of the Commission's services.

Category IV – Information and Analysis

For the past several years, the Commission has had in place a performance based measurement system consisting of a number of identified business drivers and measures. The measurement system is designed to provide goals and to integrate those goals with budgetary requests and considerations, staffing levels and efficiency and effectiveness levels. Thirty-five performance measures have been identified and information gathered on a weekly, monthly, or annual basis. Our measurements are a result of input from the users of the workers' compensation system, both internally and externally.

The Commission looks to many of our stakeholders, including South Carolina employers and their employees, insurance carriers, third-party administrators, self-insured funds, attorneys, physicians, hospitals, the General Assembly, the Governor's Office, and other State agencies to help us identify those measures that reflect the productivity of the Commission and the satisfaction of the stakeholder. The Commission's scorecard of performance measures includes process cycle times, time necessary to resolve issues of concerns and customer satisfaction. As previously reported, for much of the data captured and tracked, the Commission has been the leader, as other states look to our successes as a means of comparison. Once it can be determined as to how other states perform in similar categories, additional revisions and improvements to the system can be made. All employee performance appraisals are tied to the agency's performance measures and the employee's individual link to the Commission's mission and to the employee's department mission.

The Commission has been able to establish activity-based costing to determine the cost associated with several of our processes. This includes cost associated with processing a hearing request; having a hearing; having an informal conference; and processing and collecting fines to ensure improved compliance. In addition, comparison of workload measures with past or expected performance allows the leadership to make adjustments to processes and provides a means for improvement of services.

A number of performance measures are geared toward customer expectations. One of these measures is the process cycle time for setting various types of hearings. For many injured employees, economic viability is at stake following an on-the-job injury and a shorter wait for a hearing is a key indicator of customer service and satisfaction. During the fiscal year, the process cycle time for setting a hearing for the injured employee has substantially increased. The increase in the time it takes to get a hearing is directly attributable to both the severe budget cuts necessitating the maintenance of numerous vacancies in the department responsible for processing requests, an increase in the number of those requests due to denial of liability by the employer and an increase in the number of employers being uninsured. These results are detailed in the Business Results section.

Category V – Human Resource Focus

The ongoing success of any organization is a direct and proximate result of employee performance. In recognition of employee contributions to the agency's accomplishment of its goals and achievement of its mission, each department selects an employee to be named that department's Employee of the Year. From that group of outstanding individuals, an employee is selected to be the Commission's Employee of the Year. This individual routinely has exemplified cross-functional teamwork and gone above and beyond their particular position description in the performance of job duties at the Commission. In fact, job notebooks that outline job and work processes have been developed for most positions. These manuals assist in providing on-the-job training for new employees and cross training for current employees. The key to maximizing employee performance is to ensure that jobs are interesting and satisfying. Employees remain motivated in their individual efforts if given the opportunity to cross-train and learn new job responsibilities and job skills. Executive Leadership encourages employees interested in learning about other jobs to participate in cross-training efforts. Cross-training does not just benefit the interested employee; it benefits the Commission and the respective department in the event that there is an unexpected employee absence when cross-trained employees can immediately step in and help out. This has occurred more than once in the past fiscal year and having cross-trained employees has allowed the Commission to continue to provide an exceptional level of customer service. However, continued reduction in resources and budgetary constraints begin to affect morale of the employees continually overburdened with additional workloads previously managed by more employees. Executive Leadership faces a challenge during the upcoming fiscal year with an increase in workload and expectations and a continued downward spiral of loss of resources, including valuable employees. How Executive Leadership manages this challenge will affect the good will with stakeholders, including agency employees.

It is important that new employees understand the Commission's mission, structure, and the functions of our agency. During the fiscal year, the Human Resources Manager continued the development of a new employee orientation program. As it was also important to assess employee perception of the agency, upon departure, employees are interviewed and out-processed according to a designed checklist. Due to budgetary constraints, however, no new employees have been hired since the development of the orientation program, so it has not yet been tested. However, employees have departed and have gone through the out-processing procedures.

During Public Employee Recognition Week, the Commission took steps to recognize the importance of all employees to the successful achievement of our mission. Activities were planned to thank employees for their hard work, dedication and loyalty to the Commission and to the State of South Carolina. On State Employee Recognition Day, the Commission sponsored a "Commission Superlatives" program and recognized those employees selected at a breakfast for the Commission staff.

Other programs contribute to employees well being also. The Commission utilizes flexible work schedules to help employees balance their personal and professional lives. Many employees contribute generously to the Excess Leave Pool to help their co-workers during times of extended crisis. Social events such as breakfasts, luncheons, parties, and various other types of gatherings are regularly scheduled within the offices.

It is the ultimate goal of the Commission to develop a workforce with the knowledge, skills and abilities to: guarantee present and future organizational success meeting missions and goals; enhance present and future individual employability and job successes; and fit individual needs with organizational goals.

Category VI – Process Management

During fiscal year 2001-2002, the South Carolina Workers' Compensation Commission turned its focus into analyzing its specially designed database to examine the outcome of enhancing the system or redesigning the system completely to meet the Commission's and stakeholders needs and demands.

The present database system for the Commission was designed and installed in 1990. It is a client/server relational database system with custom application programs written for the specific needs of the Commission. The core software is Progress Version 6 with UNIX-based servers storing the data and MS-DOS based client software providing the user interface. As an MS-DOS based software package, the client software provides only text-based display capability, as was the standard at the time of installation. During the ensuing 12 years, the office automation needs and capabilities of the Commission have expanded considerably. The typical user in the agency has a Pentium III, 550 Mhz computer running Windows 98. However, one of the original 486-class NCR servers is still in use along with one newer server.

By the mid 1990's, as our system began to approach the end of a normal life cycle, budget cuts, rather than increases, had become the standard within State Government. Recognizing the low likelihood of obtaining funds for a complete database replacement, the Commission sought a means of extending the life of the existing database system. The upgrade of the user pc's to keep pace with the office automation needs provided significant performance enhancements from the client end of the database processing. However, the upgrades were complicated by the fact that the Progress client software was not designed to function with the standard Windows WINSOCK TCP/IP communication protocol. An effective solution, while unorthodox and unsupported, was discovered by installing a second network interface card in each computer. These cards were configured in such a way that their presence was not detected by the Windows operating system, but were addressable by the Progress client program for continued use of the existing database software. This has been successful with Windows 95 and Windows 98, but it is not possible to configure with newer versions of Windows.

By the late 1990's, there had been several version releases from Progress Corporation and we were left with a very functional, but unsupported, version of our database. The needs for use of the data were constantly expanding, but it appeared unwise to continue development of a custom application in an unsupported MS-DOS/text display limited product. The normal process at that time would have been to design a completely new system, either in a newer version of Progress or some competing product and migrate the data from the old system to the new. This would include archiving the older data for off-line access. Unfortunately, this was not within our budgetary limitations at the time.

An outside vendor with whom we had been working since 1983 proposed an incremental migration, as funding was available, to the newer Windows-based version of Progress. The first challenge was to develop a Windows-compatible client software package that would directly access the data stored on the Progress Version 6 UNIX servers. This would eliminate the expense of storing duplicate data on two system versions and the challenges of keeping the two sets of data synchronized. To address these needs, the vendor created a bridging database which ran on a industry standard Windows NT server and developed a prototype client package that would give the Windows users a new version of our most active application - full inquiry capability into our case management data. This bridge established that the capability to read data across the divergent platforms was feasible.

The next step was to establish that the data within the Progress Version 6 database could be reliably updated from the newer Windows/Progress Version 8 client. Two areas in need of immediate development were chosen for this prototype, self-insurance records and penalties/fine collection. At that time, both of these were being handled in a dBase III system, supporting only single users. These systems were developed sufficiently to prove the cross-update capability, to be useful to the user and to shut down the old dBase III applications. However, further development was suspended because of funding limitations.

Coincident with this software development we recognized the negative impact of running our server software on outdated 486-class hardware, running at 33 and 50 Mhz. Our options were again limited by the Progress Version 6 absolute reliance on the WIN-TCP network stack, which was not supported under any of the current technology implementation of UNIX. Four of our five database modules were successfully migrated to the HP server and the improvement in operational response of the database was extreme. Most notably, the monthly pulling process to assign contested cases to the Commissioners for hearings was reduced from a 20-hour run to less than one hour. As was the case with the software development, further work on this process by the vendor was halted by the budget cuts of the late 1990's. With internal staff, we are continuing to move the fifth database module off of the 486 server to the newer machine and hope to have this completed by the end of 2002.

These efforts continue to keep us operational, but not without challenges. While the limited development that was done in Progress Version 8 has proven to be very stable, the patches and fixes that have been made to our primary system under Progress Version 6 leave us with ongoing stability and maintenance problems. Currently, we experience daily frustrations relating to the connectivity issues with the bridge between the obsolete TCP/IP stacks that the databases operate on and our Windows 98 workstations. Each workstation creates a "session" for communication with the databases, and incomplete or duplicate "sessions" causes workstations to freeze, lockup, or refuse to access certain features. This requires a Help Desk email to IRM to have the sessions manually cleared, and the workstation must be reset. In many cases, the servers will "drop" TCP/IP services that leave many users unable to access components, requiring a full reboot of the servers that leave all databases totally unavailable for about 20 minutes as everything is started back up. End-users and IRM personnel are constantly rebooting systems to try to maintain a working handshake with the databases - often causing great inconvenience to the stakeholders we serve who call for claim or coverage information. IRM personnel also have to police the database connections hourly to remove frozen or duplicate sessions to attempt to reduce the end-user frustrations. The overall loss in productivity from the workflow disruption and user frustration is significant.

All this leaves the Commission with a number of short and long-term challenges. The short term challenges include: additional disk storage space is a necessity on the HP server to complete the data transfer off of the NCR 486 server that has been running continuously for over 12 years; the Hewlett-Packard server/computer on which most of our data resides is the property of an outside vendor and has not been purchased or leased by the agency; and, archive of data is many years overdue as all of the data captured since 1983 is still carried on-line. The long term challenges include: user workstations are locked into Windows 98 as the final available operating system upgrade, which will shortly be an unsupported version by Microsoft; our data is contained entirely in a functional, but obsolete and unsupported, database system; and, live Internet Web connectivity to data is not supported by Progress Version 6.

Without question, for the Commission to move forward with digital services, the existing database software and server hardware must be replaced. The first decision is the methodology of replacement. The choices are incremental migration or single stroke replacement. The estimated cost of incremental migration is approximately \$2.5 Million, with the estimated cost of single stroke replacement being approximately \$4 Million. Given the budget crisis the state is facing, the Commission's record keeping process and efficiency of the workers' compensation system in South Carolina is in grave danger.

Processes are all designed with an eye toward the delivery of superior customer service, fair and impartial dispute resolution and ensuring statutory compliance with all workers' compensation laws and regulations. Ease of compliance and reduction in the burden of compliance coupled with the desire to ensure prompt and fair resolution to all parties are key components in any service that the Commission delivers. In the past year, the Commission has continued to utilize the Internet to address issues of compliance and to make the workers' compensation system easier to use.

One way to ensure compliance, reduce paper flow and ease the burden of compliance is through the use of Electronic Data Interchange (EDI) standards and protocols. Effective January 1, 1998, all insurance carriers, self-insured's, and third-party administrators were required to file reports using EDI. The overall result of the effort has been lowered mailing and handling costs, elimination of numerous reports, reduced demand for storage, streamlined claims reporting, reduced costs, and improved data quality. Over 65% of all *Employer First Reports of Injury* were filed via EDI. The Commission has focused on increased compliance of national carriers and large volume reporters, and has been virtually successful in having all of these reports filed via EDI. During the fiscal year, the Commission began enforcement of 12M filings pursuant to Regulation 67-412. During the fiscal year, the Commission mailed out 266 Annual Minor Medical Fine letters amounting to \$66,500 in penalties. By the end of the fiscal year, we had collected over \$17,000 in those fines. This process has also enabled to Commission to update records and delete obsolete information. The Commission has continued to work on the national EDI effort, to stay abreast of changes, and to remain on the leading edge of this technology project. During the upcoming fiscal year, the Commission will examine ways to increase compliance of smaller volume reporters and expand the process to include additional reports.

South Carolina must have a workers' compensation system that is stable, objectively-balanced, competently-managed, and cost effective if it is to provide a fair, equitable, and timely system of benefits to injured workers and their employers. The Commission is committed to such a system and will continue working toward that goal as directed by the General Assembly.

Medical cost containment is an important element of workers' compensation programs. It has been the public policy of most states, including South Carolina, that medical costs be contained, as are the other costs in workers' compensation such as disability and wage payments. This is public policy since workers' compensation insurance is required of most employers with the cost ultimately paid by all citizens of the State as part of the price of goods and services that they purchase. Medical care comprises almost half of all claims costs with approximately \$200 million spent each year in South Carolina. The *Medical Services Provider Manual*, developed, approved and published by the Commission sets the maximum allowed fees physicians and other medical providers may be paid for services provided to a workers' compensation patient. The Commission's *Hospital Ambulatory Surgical Center Payment Manual* contains the policy governing the billing and payment of hospitals and ambulatory surgical centers for inpatient and outpatient services rendered under the Workers' Compensation Act. All prices set under both fee schedules are maximum allowable fees, which allow the parties involved to negotiate lower prices.

Category VII – Business Results

CLAIMS

Mission: Improve the timeliness and accuracy of benefits to injured workers.

Cost: Funds expended in FY 2001/2002 for the Claims Department were \$ 444,899. This funding consisted of the following sources of funds: State - \$310,931 Other - \$133,967. Total funds expended in FY '01 for the Claims Department were \$495,223. The total number of FTE's in the Claims Department was 16.

Goals: Receive and process initial reports of occupational injuries and illnesses, review all claims for complete and timely payment of benefits, review settlements for completeness and accuracy, collect statistical information, and close all claims in the most timely and accurate manner possible.

Objectives:

- Continue to review and record all accident reports within 2 days of receipt;
- Continue to review 100% of initial notices of payment of temporary total compensation within 1 day;
- Continue to review 100% of all settlements within 1 day;
- Continue to close all claims within 3 days of receipt of closing documents;
- Continue to conduct annual reviews on all open cases; and
- Reduce the percentage of processing errors in claims, both internally and externally.

Key Results:

1. Maintained at 90% the review and record all accident reports within 2 days of receipt. (Up from 80% in FY 95-96)
2. Maintained review of 100% of initial notices of payment of temporary total compensation within 1 day. (Down from 3 days in FY 95-96)
3. Maintained review 100% of all settlements within 1 day.
4. Reduced closing all claims to within 2 days of receipt of closing documents. (Down from 3 days in FY 00-01)
5. Maintained conducting annual reviews on all open cases.
6. Overall, maintained the percentage of processing errors in claims, both internally and externally:

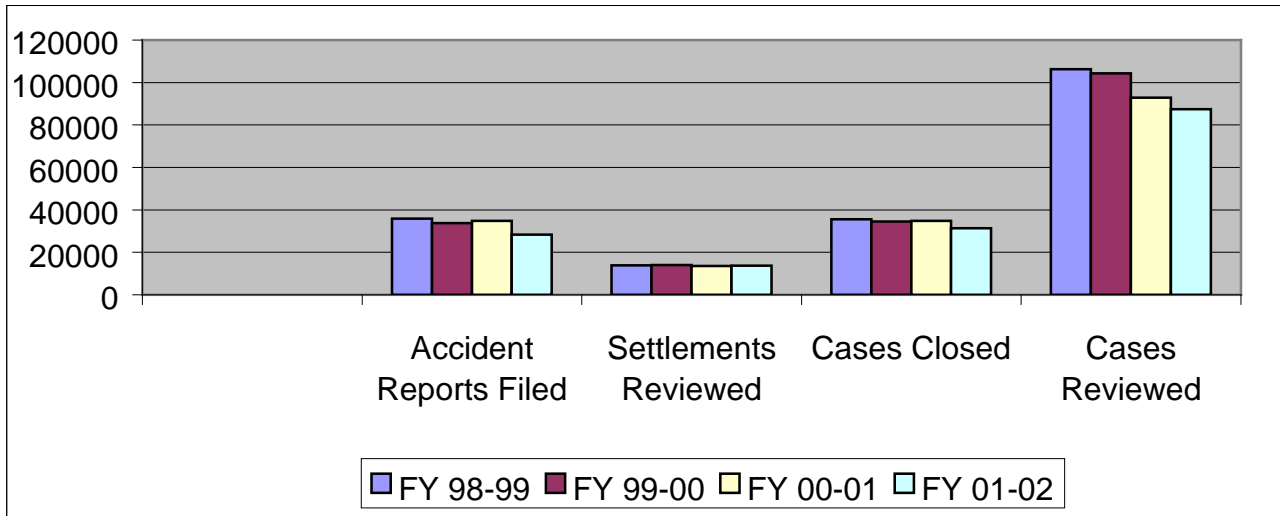
	<u>FY 2001-2002</u>	<u>FY 2000-2001</u>
Untimely Form Filings	34% *	39%
Untimely Payments	0% *	7%
Untimely Investigations	0% *	16%

*Due to fiscal constraints, only one outside audit of carriers was conducted, only allowing for the review of 59 files. Numbers are consequently non-representative of performance.

Raw Numbers:

	<u>FY 2001-2002</u>	<u>FY 2000-2001</u>
Classified Accident Reports Filed	28,349	34,785
Initial Payment Notices Reviewed	15,233	15,431
Settlements Reviewed	13,753	13,610
Number of Carrier Files Audited	59	615
Cases Closed by Commission	31,312	34,826
Cases Reviewed	87,491	92,874

CLAIMS



JUDICIAL

Mission: Assess and assign for disposition all claims requiring mediation, adjudication, or appellate review.

Cost: Funds expended in FY 2001/2002 for the Judicial Department were \$1,945,129. This funding consisted of the following sources of funds: State - \$1,550,902, Other - \$394,227. Total funds expended in FY '00/01 for the Judicial Department were \$2,097,227. The total number of FTE's in the Judicial Department was 36.

Goals: Prepare and schedule unresolved claims for either an informal conference (viewing), hearing, or appellate review; Make settlement recommendations (viewings), or adjudicate findings (hearings and reviews) to resolve disputed issues; and Approve settlement agreements, lump sum awards, and attorney fee petitions in the most equitable, timely, and accurate manner possible.

Objectives:

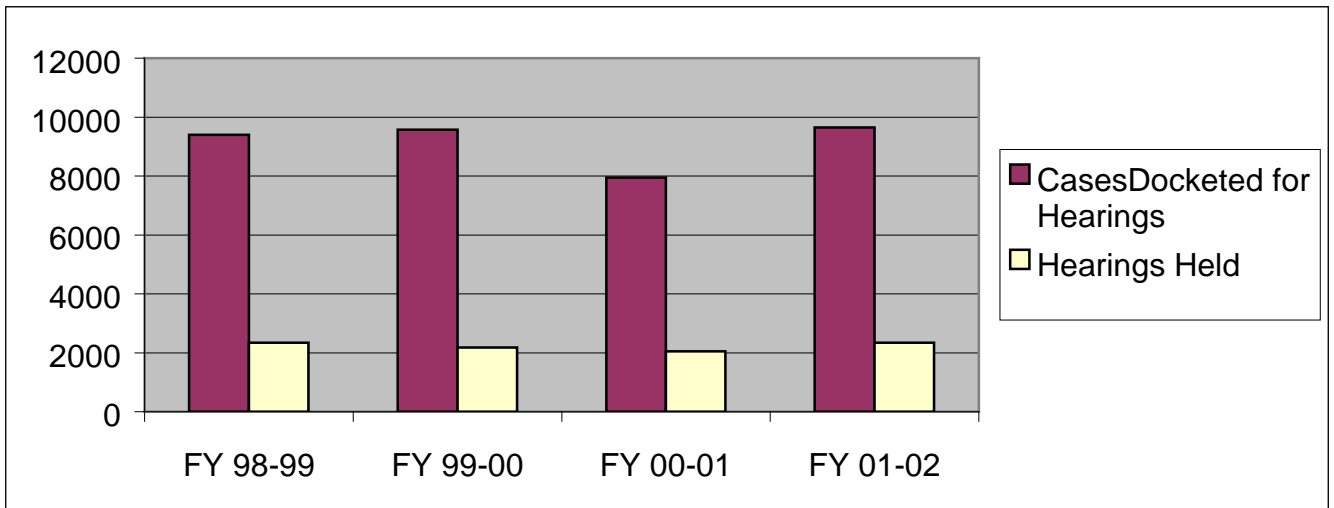
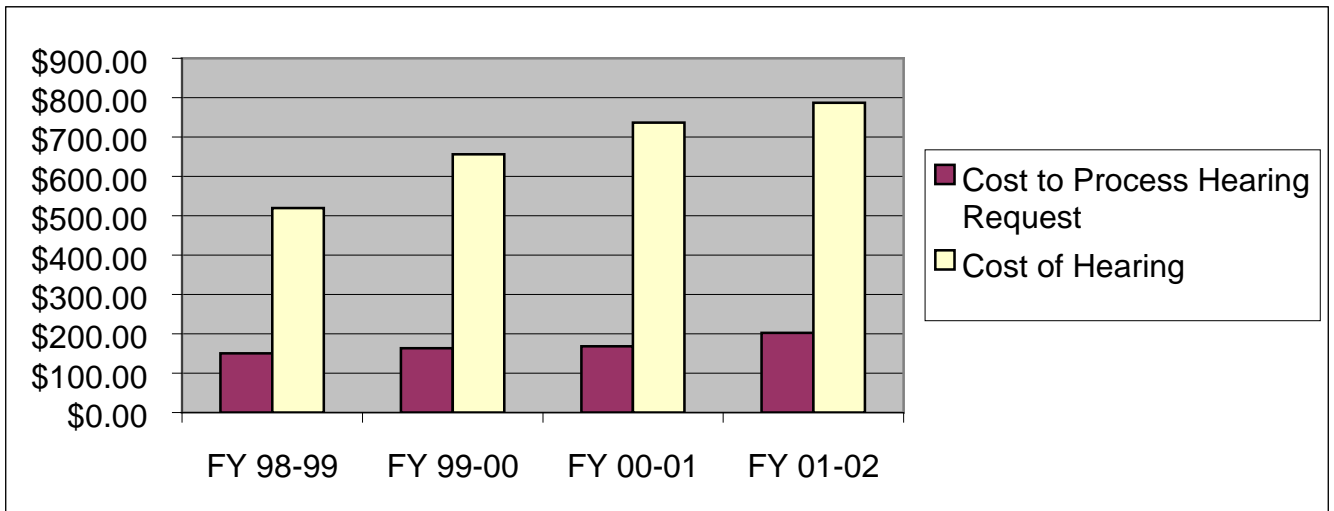
- Continue to process requests for informal conferences within 5 days;
- Dispose of 80% of hearings within 120 days;
- Continue to docket appeals within 60 days.
- Continue to process hearing requests within 10 days;
- Dispose of 80% of informal conferences within 90 days, and
- Dispose of 90% of appeals within 90 days.

Key Results:

1. Maintained processing 100% of requests for informal conferences within 5 days.
2. Disposed of 60% of hearings within 120 days. (FY 01-02 155 days)
3. Maintained docketing 90% of appeals within 60 days. (Up from 60 days FY 00-01, down from 90 days FY 95-96)
4. Processed 90% of hearing requests within 15 days. (Up from 10 days FY99-00; down from 21 days FY95-96)
5. Maintained disposing of 80% of informal conferences within 90 days.
6. Maintained disposing of 90% of appeals within 90 days.

Raw Numbers:

<u>Hearings Held</u>	<u>FY 2001-2002</u>	<u>FY 2000-2001</u>
Average Cost to Process Hearing Request	\$202.68	\$ 168.03
Average Cost of a Hearing	\$787.36	\$ 736.52
Average Cost to Process Informal Conference Request	\$ 26.49	\$ 27.57
Average Cost of Informal Conference	\$ 27.84	\$ 32.88
Cases Docketed for Hearings	9,643	7,948
Cases Docketed for Informal Hearings	6,666	6,213
Decisions & Orders Issued	3,823	3,532
Full Commission Appeals Filed	874	739
Full Commission Appeals Completed (Orders/Settled)	631	725
Appeals to Higher Courts	187	171



INSURANCE & MEDICAL SERVICES

Mission: Assure availability of workers' compensation benefits to injured workers, provide employers a self-insurance alternative, and contain medical costs.

Cost: Funds expended in FY 2001/2002 for the Insurance & Medical Services Department were \$448,363. This funding consisted of the following sources of funds: State - \$328,723 Other - \$119,640. Total funds expended in FY '00/01 for the Insurance & Medical Services Department were \$483,849. The total number of FTE's in the Insurance & Medical Services Department was 12.10.

Goals: Develop and maintain payment systems for hospitals, physicians, and other health care providers for services provided to workers' compensation patients; review all applications from corporations and prospective funds to self-insure their workers' compensation liabilities; monitor the financial condition of all self-insured funds and self-insured corporations; and ensure all companies and individuals encompassed by the Workers' Compensation Act comply with its provisions in the most accurate and reliable manner possible.

Objectives:

- Revise as necessary and maintain the *Medical Services Provider Manual* and the hospital inpatient and outpatient systems;
- Continue to review contested medical bills within 5 days;
- Continue to review corporate applications to self-insure within 60 days of receipt of the completed applications;
- Continue to review fund member applications to self-insure within 2 days of receipt of the completed applications;
- Increase by 10% the number of unannounced business contacts;
- Collect self-insured taxes within 120 days of the end of each self-insured's fiscal year;
- Maintain employers coverage database and verify coverage within 5 days;
- Increase the number of self-insured audits; and,
- Increase the percentage of compliance cases closed within 120 days.

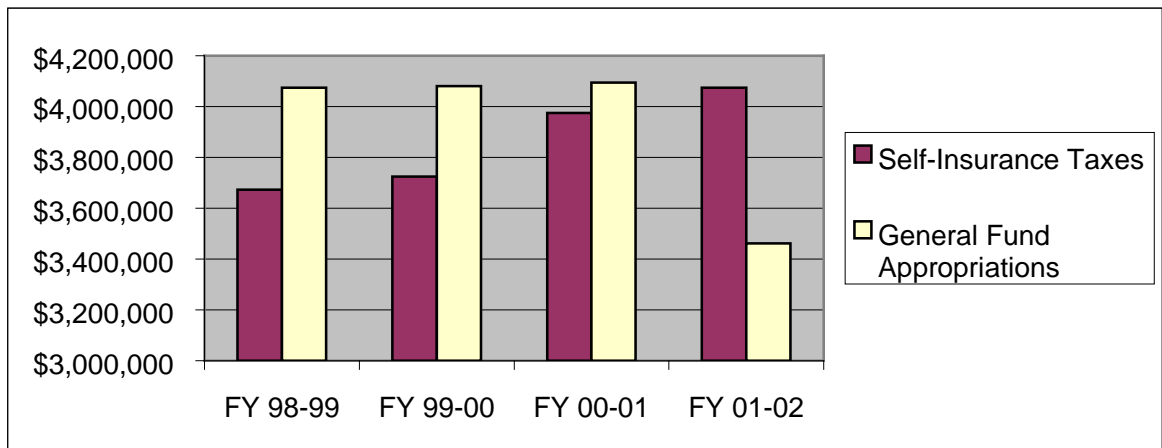
Key Results:

1. Due to pending litigation, the *Medical Services Provider Manual* was not updated during the fiscal year. However, significant preparatory financial analysis was completed that will facilitate publishing of the *Fee Schedule* in FY 2002-2003.
2. Maintained 100% review of contested medical bills within 5 days.
3. Maintained 100% review of corporate applications to self-insure within 60 days of receipt of the completed applications.
4. Maintained 100% review of fund member applications to self-insure within 2 days of receipt of completed applications.
5. Collected 99% of self-insurance taxes within 120 days of the end of each self-insured's fiscal year.
6. Maintained the employer insurance coverage database and verified 98% of coverage within 5 days.
7. Maintained the number of self-insured audits conducted.

Raw Numbers:

	<u>FY 2001-2002</u>	<u>FY 2000-2001</u>
Medical Bill Disputes Reviewed & Resolved	293	873
Corporate Self-Insured Applications Reviewed	17	24
Fund Member Self-Insured Applications Reviewed	695	772
Self-Insurance Audits Conducted	87	88
Self-Insurance Taxes Collected	\$ 4,074,455	\$ 3,974,939
Compliance Cases Initiated	696	806
Compliance Cases Closed	618	808
Compliance Contacts with Businesses	840	1,140
Investigations Set for Hearing	142	178
Consent Agreements Received	136	161
Hearings Held	35	40
Compliance Fines Received	\$ 121,389	\$ 79,500
Coverage Fines Initiated	1,658	2,126
Coverage Fines Collected	\$ 668,600	\$ 924,700

Self-Insurance Taxes Collected/General Funds Appropriations



During FY 2001-2002, no current self-insured employers or funds filed for bankruptcy and ceased to be insured. Clinton Mills, a former self-insured employer, filed for bankruptcy and was commercially insured at the time of filing. Spartan Mills and Mayfair Mills, both no longer self-insured, have been involved with bankruptcy proceedings and are liquidating. Two self-insured funds closed this past year: Transportation Employers Self-Insured Trust and the South Carolina Chamber of Commerce Manufacturers Workers' Compensation Self-Insurance Trust and their claims are in run-off. Two companies, Owens Corning and K-Mart, have filed for Chapter 11, reorganization. Both are currently self-insured and both continue to meet the self-insurance requirements.

This past year the increase in self-insurance taxes was 6.8%, from \$3.8 to \$4.1 million. It is difficult to attribute the increase to any one area. Overall, the number of self-insureds increased slightly over the past two years and that would increase the total number of claims and the total dollar amounts paid (the base for the self-insured tax). However, since the Commission does not track payroll figures, the number of employees covered and classification codes, not much is known as how much the base expanded. The average weekly wage also increased during this time, as did medical costs (prices and utilization), all of which would impact total taxes collected.

Reductions in staff have had an impact with the number of compliance cases. Both investigations and the number of contacts with businesses are down, 20% and 26% respectively. Part of that decrease can be attributed to reductions in staff. Part can also be attributed to the increasing complex nature of the cases, which require significantly more time and resources to properly investigate. For example, many of the cases involving employee leasing companies and premium fraud are time and paper intensive. Establishing the proper parties to pay claims in these cases is oftentimes a long and involved process.

The reduction of compliance cases can also be attributed to how we handle cases as they come through the Commission. We make every effort to resolve coverage issues quickly and we are spending more time on the front end trying to resolve insurance matters so the claim can proceed. Overall, we have improved our service to customers by moving the less complex cases along faster.

Coverage fines declined, both for late reporting and failure to report the federal employer identification number, from \$924,700 to \$668,600. Reliance and Legion were two carriers consistently contributing large amounts of money via coverage fines, and their absence in the market place has had an impact.

The number of insurers doing business in the State has decreased. There have been two major insolvencies, Reliance (now in liquidation) and Legion/Villanova (currently in rehabilitation with an order of liquidation expected any day) during the past fiscal year. Both companies created substantial problems by underpricing workers' compensation policies and both companies had written a substantial number of large deductible policies, effectively letting employers self-insure, paying claims with little oversight. For a time, companies like Reliance and Legion were able to continue along, despite inadequate premiums, due in part to the stock market, which enabled insurers to make healthy returns on their investments. However, in the past two years, the underpriced policy legacy has come back to haunt insurers, leaving dozens of insolvent insurers and resulting in rate increases.

Considering the market adjustments currently evolving, and considering the number of fraudulent insurance schemes continuing to come to light, assuring industry compliance is going to be an important function of the Workers' Compensation Commission. While we review claim files, and while claimants can request a hearing for disputes that arise, an adequate system is no longer in place to effectively ascertain how insurance companies are complying with the Workers' Compensation Act. Monitoring industry compliance will prove increasingly more important.

The state of affairs for workers' compensation is precarious. The economy is stumbling, the stock market has taken a drastic downturn, along with investment returns, loss ratios are rising, and several large insurance companies and self-insured employers are now insolvent. We are about to experience severe increases in workers compensation rates all over the country, including South Carolina. These will continue to be very challenging times for the workers' compensation system.