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Legislative Commission
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We have completed an audit of the Risk Management Division. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Risk Management Division for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

October 4, 2005
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF ADMINISTRATION RISK MANAGEMENT DIVISION

Background

The Risk Management Division (Division) was created in 1979 to provide efficient and effective management of the state's insurance programs. Legislation was passed in 1999 that separated the Public Employees' Benefits Program from the Division, effective July 1, 1999.

The Division provides loss prevention tools, information, risk transfer options, and loss funding mechanisms to state agencies to protect the state's assets, including personnel, from accidental losses, and adopts and promotes loss prevention and safety programs. The Division has two sections: Insurance and Loss Prevention, and Workers' Compensation and Safety.

The Division spent almost \$18.2 million in fiscal year 2004, of which about \$16.9 million was for insurance and claims costs. The Division had seven filled, authorized, full-time positions in fiscal year 2004.

Purpose

The purpose of our audit was to determine if the Division complied with laws, regulations, and policies significant to its financial and administrative activities. This audit included a review of the Division's activities for fiscal year 2004.

Results in Brief

The Division's policies and procedures for many of its administrative and financial functions could be improved.

EXECUTIVE SUMMARY

DEPARTMENT OF ADMINISTRATION RISK MANAGEMENT DIVISION

Several of the Division's policies and procedures are incomplete or not specific to the Division's needs. As a result, the Division's financial arrangement with its third party administrator was not appropriately documented, and some contracts were not adequately monitored. The Division also overpaid a vendor, recorded some payments in the wrong fiscal year, and did not always ensure costs were billed timely.

Principal Findings

- The Division provided \$500,000 of funding to its workers' compensation third party administrator (TPA) in fiscal year 2004 in addition to claims reimbursements and administrative fees. However, the \$500,000 was not adequately documented. For example, the dollar amount of the funding was not specified in writing, and other provisions surrounding the funding were not clear. To avoid untimely payment of claims, the Division entered into an agreement with the insurer whereby the Division provided the funds to the TPA to pay claims. The Division replenishes the funds monthly based on claim payments made. Although the Division's calendar year 2004 contract with the insurer addressed the Division's \$1.1 million loss fund deposit with the insurer, it did not specifically mention the additional \$500,000 paid to the TPA as an initial loss fund account. Therefore, it is not clear whether the provisions in the original contract regarding the loss fund deposit also apply to the loss fund account held by the TPA. (page 10)
- The Division has not submitted all contracts and contract amendments to the Board of Examiners (BOE) for approval. For example, six insurance contracts totaling over \$5 million and one amendment to a broker's contract were not approved by the BOE

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as required by NRS 284.173. Forwarding all contracts and amendments to the BOE provides all interested parties with information regarding the state's obligations. Division management stated BOE approval is not required for insurance policies per an Advisory Opinion received from the State Purchasing Division in May 2000. The Advisory Opinion discusses the exemption of the Division from the State Purchasing Act for competitive selection when contracting for insurance brokerage services. However, this opinion does not mention whether BOE approval is required for insurance policy contracts. NRS 284.173(6) requires each proposed contract with an independent contractor be submitted to the BOE. In addition, the State Administrative Manual requires all amendments to contracts be reviewed by the BOE if the total amount of the contract and amendments exceeds \$10,000. (page 11)

- The Division signed two statewide occupational health contracts for the provision of police and firefighter physicals and other occupational health services. The two contracts had a total maximum value of \$3.5 million over a 4-year period. The Division allocates the majority of the contracts' services to other agencies and payments are primarily made by participating agencies. However, the Division only monitored its portion of the contracts. As such, the Division has little assurance the contract maximums were not exceeded. Regardless of who spends money under the contracts, the Division, as the contracting party, is responsible for monitoring contract payments to ensure contract maximums are not exceeded. (page 12)
- The Division approved a payment to a broker that incorrectly included a commission of \$7,000. The broker had agreed to a flat fee instead of commission. The broker noted the error approximately 3 months after payment was received and refunded the money

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to the Division. The Division has the responsibility to identify errors before approving payment. (page 13)

- In fiscal year 2004, the Division paid approximately \$31,000 for services received in fiscal years 2002 and 2003. The State Accounting Procedures Law requires expenditures be recognized in the accounting period in which the liability is incurred, if measurable. The Division carried forward \$1,800 from fiscal year 2003 to fiscal year 2004. Therefore, the Division would have had a shortfall of almost \$29,000 in available funding in fiscal year 2003. (page 14)
- The Division's controls over billing costs need improvement. The Division did not timely bill about \$61,000 of Nevada Department of Transportation workers' compensation insurance costs. The Division indicated it notified the Administrative Services Division of the Department of Administration of \$56,000 of the costs in December 2003. However, the Division did not follow-up with Administrative Services regarding the status of the billable costs. After we brought it to the Division's attention, these costs were billed in April 2005, and the payment was received in May 2005. In addition, the Division revised its workers' compensation billing procedure in May 2005 to improve tracking of the Nevada Department of Transportation's billings. (page 15)
- The Division does not have policies and procedures specific to its operations. A large part of the Division's operations includes the use of brokers. However, the Division's policies and procedures do not address verifying if broker services were received, the quality of services received, or the timeliness of services and invoices. Throughout the audit, we noted the Division's reliance on brokers to provide management information. Because of this reliance, it is imperative

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that information received from the brokers be objectively reviewed. For example, the Division used information from a broker to calculate workers' compensation rates assessed to a state agency. However, the information was incorrect and resulted in subsequent corrective billings to the agency. (page 16)

Recommendations

This audit report contains seven recommendations to improve the Division's financial and administrative activities. Specifically, the Division should improve its controls over contracting and payment processes. In addition, the Division should improve its procedures, including those for processing claims and monitoring brokers. (page 24)

Agency Response

The Division, in its response to our report, accepted all seven recommendations. (page 21)

Introduction

Background

The Risk Management Division (Division) was created in 1979 to provide efficient and effective management of the state's insurance programs. Legislation was passed in 1999 that separated the Public Employees' Benefits Program from the Division, effective July 1, 1999.

The mission of the Division is to provide effective loss prevention tools, information, risk transfer options, and loss funding mechanisms to state agencies to protect the state's assets, including personnel, from accidental losses, and to adopt and promote effective loss prevention and safety programs. The Division is comprised of two sections: Insurance and Loss Prevention, and Workers' Compensation and Safety.

The Insurance and Loss Prevention section is responsible for purchasing insurance, managing commercial insurance policies, and administering the self-funded automobile physical liability program and the large deductible property insurance program. In addition, this section provides training, technical assistance, and loss prevention information.

The state's assets are covered under the self-insured and private-carrier policies administered by the Division, the cost of which is billed to participating state agencies. Exhibit 1 is a summary of the Division's insurance programs.

Exhibit 1

**Risk Management Division
Insurance Programs
Fiscal Year 2004**

Insurance Program	Type of Insurance	State Deductible	Agency Deductible
Property	Self Insured and Commercially Insured	Damage \$500,000; Flood \$100,000; Fine Art \$25,000	Property \$1,500; Computers \$2,500; Heavy Equipment \$3,000
Boiler and Machinery	Commercially Insured	\$10,000	\$10,000
Commercial Crime	Commercially Insured	None	Employee Dishonesty \$150,000; Forgery, Theft, etc. \$50,000
Excess Liability	Commercially Insured	\$2,000,000	None
Aviation/Aircraft	Commercially Insured	None	Airport \$0; Aircraft Not in Motion \$100; Aircraft in Motion \$1,000; Non- Owned Aircraft \$2,000
Automobile	Self Insured	None	\$300 except \$500 for Nevada Highway Patrol

Source: Division records and State Administrative Manual, 23rd edition.

The Workers' Compensation and Safety section is responsible for administering an effective workers' compensation insurance policy and program. This includes negotiation, purchase, and oversight of the workers' compensation insurance policy and program; coordination and oversight of the statewide occupational health contracts for the provision of police and firefighter physicals and other occupational health services; and promotion of loss prevention programs to minimize risk.

The Division operates a large deductible workers' compensation program, which is commercially purchased. Under a large deductible plan, the insurer is responsible for the payment of all covered workers' compensation costs. The Division reimburses the insurer for all losses paid by the insurer which fall below the deductible. The state's deductible for calendar year 2004 was \$2.5 million per person or incident.

The Division assesses agencies for workers' compensation based on the Division's estimated cost of operating the program. In general, rates are assessed to each budget account per \$100 of payroll to a maximum of \$36,000 per employee, per year. Premiums for volunteers, board members, interns, inmates, cadets, community service workers, or other state employees not paid through central payroll, such as Nevada Department of Transportation employees, are due quarterly.

Division expenditures for fiscal year 2004 are shown in Exhibit 2. The Division spent almost \$18.2 million in fiscal year 2004, of which about \$16.9 million was for insurance and claims costs.

Exhibit 2

**Risk Management Division
Expenditures
Fiscal Year 2004**

Personnel		\$ 493,177
Operating and Administration		228,306
Insurance Costs		
Workers' Compensation	\$6,271,822	
Property	851,995	
Commercial Crime	37,060	
Aviation	162,450	
Boiler and Machinery	62,553	
Excess Liability	270,346	
Miscellaneous	18,072	
Total Insurance Costs		7,674,298
Claims Costs		
Workers' Compensation	8,202,568	
Property	668,844	
Automobile	315,662	
Total Claims Costs		9,187,074
Loss Control Services		436,964
Special Projects		27,850
Contract Consultants		119,783
Training		19,650
Total		\$18,187,102

Source: State's accounting system and Division records.

For fiscal year 2004, the Division had seven filled, authorized, full-time positions. The Division has one office, which is located in Carson City.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of the Division's financial and administrative activities for the fiscal year ended June 30, 2004. The objective of the audit was to determine if the Division complied with laws, regulations, and policies significant to its financial and administrative activities.

Findings and Recommendations

The Division's policies and procedures for many of its administrative and financial functions could be improved. Several of the Division's policies and procedures are incomplete or not specific to the Division's needs. As a result, the Division's financial arrangement with its third party administrator was not appropriately documented, and some contracts were not adequately monitored. The Division also overpaid a vendor, recorded some payments in the wrong fiscal year, and did not always ensure costs were billed timely.

Controls Over Contracts Need Improvement

Contracts comprise a large portion of the Division's operations. However, the Division's controls over contracts could be improved. Stronger controls would help ensure contracts are properly documented and approved and contract maximums are not exceeded.

Funding Arrangement With TPA Not Adequately Documented

The Division provided \$500,000 of funding to its workers' compensation third party administrator (TPA) in fiscal year 2004 in addition to claims reimbursements and administrative fees. However, the \$500,000 was not adequately documented. For example, the dollar amount of the funding was not specified in writing, and other provisions surrounding the funding were not clear.

The Division hired a broker to market Nevada's workers' compensation needs to insurers. The successful insurer is responsible for hiring a TPA. Once hired, the TPA is responsible for processing all of the Division's workers' compensation claims. Under the original agreement with the insurer, when workers' compensation claims were processed, the Division's claims reimbursements flowed through the broker and insurer before going to the TPA. This made the reimbursement process lengthy and created the potential for untimely payment.

To avoid untimely payment of claims, the Division entered into another agreement with the insurer whereby the Division provided funds to the TPA to pay claims. The Division replenishes the funds monthly based on claim payments made. Although payments have to flow through the broker before going to the TPA, they do not have to flow through the insurer.

Although the Division's calendar year 2004 contract with the insurer addressed the Division's \$1.1 million loss fund deposit with the insurer, it did not specifically mention the additional \$500,000 paid by the Division to the TPA as an initial loss fund account. In addition, the 2004 contract with the insurer became effective on January 1, 2004, but the \$500,000 in the initial loss fund account was paid to the TPA between February 2004 and April 2004. An addendum to the insurance policy outlining the Division's direct payment of claims to the TPA did not specify the amount the Division was to deposit in the initial loss fund account or the disposition of the funds if the arrangement between the Division, the insurer, and the TPA ended. In addition, the addendum did not clearly connect the \$1.1 million loss fund deposit paid to the insurer with the \$500,000 loss fund account paid to the TPA. Therefore, it is not clear whether the provisions in the original contract regarding the loss fund deposit apply to the additional loss fund account.

Contracts Not Always Approved by Board of Examiners

The Division has not submitted all contracts and contract amendments to the Board of Examiners (BOE) for approval. For example, six insurance contracts totaling over \$5 million and one amendment to a broker's contract were not approved by the BOE as required by NRS 284.173. Forwarding all contracts and amendments to the BOE provides all interested parties with information regarding the state's obligations.

Division management stated BOE approval is not required for insurance policies per an Advisory Opinion received from the State Purchasing Division. The Advisory Opinion, dated May 2000, discusses the exemption of the Division from the State Purchasing Act (NRS 333) for competitive selection when contracting for insurance brokerage services. The Advisory Opinion states that the selection of brokers shall be consistent with NRS 333 and, subject to the approval of the BOE, the Risk Manager

may contract with not less than two brokers. The Advisory Opinion also states that any contract award to an insurance broker that subsequently brings policy plans and premium quotes from the market will not be subject to competitive selection. A final selection of insurance will be made at the discretion of the Risk Manager subject to the approval of the Director of the Department of Administration.

However, this opinion does not mention whether BOE approval is required for insurance policy contracts, other than insurance brokers. NRS 284.173(6) requires proposed contracts with an independent contractor be submitted to the BOE. Further, NRS 679A.112 defines a policy as a written contract or agreement effecting insurance, including all clauses, riders, and endorsements.

In addition to the insurance contracts, the Division did not submit a contract amendment to the BOE for approval. The amendment increased a broker's contract maximum by \$100,000 to \$600,000 for loss control services for the period from January 2002 to July 2005. Division management maintains contract terms for this contract allow them to negotiate for services as long as the total costs expended for any fiscal year do not exceed the contract term costs for the fiscal year.

The State Administrative Manual requires all amendments to contracts be reviewed by the BOE if the total amount of the contract and amendments exceeds \$10,000. The Manual further explains that amendments include, but are not limited to, additional money or time, any change in the basis of payment, or any substantive change to the scope of work.

Statewide Contracts Not Adequately Monitored

The Division signed two statewide occupational health contracts for the provision of police and firefighter physicals and other occupational health services. The two contracts had a total maximum value of \$3.5 million over a 4-year period. The Division allocates the majority of the contracts' services to other agencies; however, the Division only monitored its portion of the statewide contracts. As such, the Division has little assurance the contract maximums were not exceeded.

The Division signed the contracts on behalf of participating state agencies. Payments are primarily made by participating agencies; however, the Division does not monitor payments made by other agencies. Division management stated they are not

responsible for how other agencies spend their share of the contract. In addition, agencies do not record their payments consistently. Therefore, it is difficult to monitor all contract payments. However, regardless of who spends money under the contracts, the Division, as the contracting party, is responsible for monitoring contract payments to ensure contract maximums are not exceeded.

Recommendations

1. Improve documentation of the funding agreement with the third party administrator to include the amount provided and the provisions surrounding the funds.
2. Submit all applicable contracts and contract amendments to the Board of Examiners for approval.
3. Require the statewide occupational health contractors and the agencies covered under the statewide contracts to submit reports detailing billings and expenditures made under the contracts in order to ensure contract maximums are not exceeded.

Inadequate Review of Invoices

The Division's process to review invoices needs improvement. We noted an inappropriately paid commission and payments made in the wrong fiscal year. In addition, we noted instances where approval authority was exceeded.

Excess Commission Paid

The Division approved a payment to a broker that incorrectly included a commission of \$7,000. The broker had agreed to a flat fee instead of commission. The broker noted the error approximately 3 months after payment was received and subsequently refunded the money to the Division.

The Division has the responsibility to identify errors before approving payment. If the Division had more thoroughly reviewed the invoice before approving payment, it should have noted the error and denied payment. The Division's policies and procedures do not address review of broker payments.

Payment Made in Wrong Fiscal Year

In fiscal year 2004, the Division paid approximately \$31,000 for services received in fiscal years 2002 and 2003. Paying for services received in prior fiscal years does not comply with state law and reduces the reliability of financial information.

In July and August 2003, the Division received invoices for approximately \$31,000 for loss control services provided by subcontractors between May 2002 and June 2003. Although the services were included in the Division's contract with its broker, we found no evidence the Division requested the broker provide the invoices timely. The Division's failure to thoroughly review and question the delay indicates the Division is not adequately monitoring the status of contracted services and associated invoices. This resulted in costs being recorded in the incorrect fiscal year.

The State Accounting Procedures Law requires expenditures be recognized in the accounting period in which the liability is incurred, if measurable. Services received in fiscal years 2002 and 2003 that were paid in fiscal year 2004 totaled \$31,000. The Division carried forward \$1,800 from fiscal year 2003 to fiscal year 2004. Therefore, if the Division had paid for these services in the correct fiscal year, the Division would have had a shortfall of almost \$29,000 in available funding.

Approval Authority Exceeded

Division documents indicate claims greater than \$2,500 must be approved by management; however, this practice was not always followed. We noted some transactions authorized by staff that should have been approved by management. Approval at the incorrect level results in management directives not being followed.

We tested seven claims greater than \$2,500. Of these claims, four were not properly approved. For example, we noted a claim payment of \$19,662 which was approved by staff whose approval authority was limited to \$2,500.

Management indicated they review staff work, however, we found no evidence of this. Management approval should be documented by a signature. If management had reviewed staff's work, they may have noted the claims without appropriate approval.

Recommendation

4. Develop policies and procedures to ensure:
 - Invoices are adequately reviewed prior to payment, including verifying invoices are consistent with contract terms;
 - Payments are coded to the correct fiscal year; and
 - Management approval is appropriately documented.

Improved Policies and Procedures Needed

The Risk Management Division needs to improve its policies and procedures. Some policies and procedures were incomplete, some were not followed, and some were not specific to the needs of the Division. As a result, insurance costs were not always billed timely and required estimates for automobile damage claims were not always obtained.

All Costs Not Billed Timely

The Division's controls over billing costs need improvement. The Division did not timely bill approximately \$61,000 of Nevada Department of Transportation (NDOT) costs. Strong controls over billings are essential in protecting the Division's resources.

The Division calculates workers' compensation costs for NDOT separately from other state agencies. The Division forwards this cost information to the Administrative Services Division of the Department of Administration. Administrative Services then bills NDOT. The majority of other agencies are billed directly through the state's payroll system.

The Division identified \$61,000 of billable NDOT costs. The Division indicated it notified Administrative Services of \$56,000 of the \$61,000 costs in December 2003. However, Administrative Services was unable to locate information to verify it had received notification of the billable costs. Further, the Division did not follow-up with Administrative Services regarding the status of the billable costs. Also, the Division did not notify Administrative Services of \$5,000 in additional NDOT costs. After we brought it to the Division's attention, these costs were billed to NDOT in April 2005, and the payment was received in May 2005.

These problems were caused, in part, because the Division had not developed adequate procedures to ensure all services were billed. Further, the Division's policies did not provide for review of records to ensure all billable NDOT costs are forwarded to Administrative Services. According to the Division's policies and procedures, Administrative Services is responsible for tracking and collecting the Division's outstanding accounts receivable. In order for Administrative Services to do this, the Division must notify Administrative Services of billable costs. In addition, it is the Division's responsibility to follow-up with Administrative Services regarding the status of billable costs in a timely manner. In May 2005, the Division revised its workers' compensation billing procedure to improve tracking of NDOT's billings.

Claims Processing Procedures Not Always Followed

Division staff did not always follow written procedures related to automobile claims processing. The Division operates a self-funded automobile physical damage program. SAM requires the owner-agency to secure and submit three estimates to the Division before the Division will reimburse a claim for damage. Insured vehicle claims, other than the Nevada Highway Patrol, are subject to a \$300 deductible. Therefore, automobile claims over \$300 paid by the Division should be supported by at least three estimates.

During testing, we noted the Division did not require three bids to reimburse vehicle damages of less than or equal to \$350 incurred by the Motor Pool Division. Division personnel stated this was a practice that had been carried over from the prior Risk Manager. However, the current Risk Manager was unaware of this practice until we brought it to her attention. After we brought it to management's attention, management instructed staff to comply with the written policy.

Policies and Procedures Not Specific to Risk Management

The Division does not have policies and procedures specific to its operations. A large part of the Division's operations includes the use of brokers. Brokers are used to market the state's insurance needs. Brokers then recommend insurers to the State based on the state's needs. Brokers are also involved in providing the State with loss control services. All broker services are provided under contract. The State pays the brokers commissions or fees for services provided.

The Division's policies and procedures do not address verifying if broker services were received, the quality of services received, or the timeliness of services and invoices. These verifications should be completed by the Division before Administrative Services processes the payments.

Throughout the audit we noted the Division's reliance on brokers to provide management information. Because of this reliance, it is imperative that information received from the brokers be objectively reviewed. For example, the Division used information received from a broker to calculate workers' compensation rates assessed to a state agency. However, the broker information was incorrect and resulted in subsequent corrective billings to the agency. If the Division had objectively reviewed the information, the error may have been caught sooner.

Recommendations

5. Periodically review and evaluate policies and procedures to determine if changes are needed and revise the procedures when necessary.
6. Ensure all claims are processed in accordance with established procedures.
7. Develop policies and procedures specific to monitoring brokers.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Division's operations, we interviewed Division staff and reviewed state laws, regulations, policies, and procedures significant to the Division's operations. We also reviewed the Division's financial reports, prior audit reports, budgets, minutes of various legislative committees, and other information describing activities of the Division.

To understand how the Division estimated its workers' compensation costs, we reviewed the Division's process, methodology, and documentation supporting each component of the cost. We tested a judgmental sample of 10 online agencies (those paid through central payroll), 3 offline agencies (those not paid through central payroll), and 10 self-reporting agencies (those with inmates, board members, or volunteers) to verify whether workers' compensation rates were accurately applied, calculations were accurate, and transactions were appropriately executed and recorded.

To understand the Division's basis for property and content insurance premiums assessed to agencies, we reviewed the Division's process, methodology, and documentation supporting each cost component. We recalculated the premium and verified the correct premium was charged to agencies. Next, we tested the accuracy of the Division's insured property listings by selecting a random sample of 30 listed properties. We traced and agreed properties to supporting information. In addition, we tested the completeness of the Division's property and contents listings. Further, we tested a random sample of 15 property and contents claims, including automobile claims, to determine if the Division processed them correctly.

To determine if the Division processed expenditures in accordance with the laws, regulations, and policies significant to the financial administration of the Division, we selected a random sample of 30 expenditures. We traced and agreed expenditures to supporting documentation and verified classification, approval, and compliance with purchasing requirements.

To determine if broker payments complied with state contracting requirements, we reviewed broker contracts. We verified whether the Division obtained appropriate Board of Examiners approval for broker contracts and amendments. We analyzed and identified the purpose of each payment. We compared payments to contract maximums. In addition, we verified payments were consistent with the contract terms, and received appropriate Division approval.

To determine if statewide occupational health contract payments were processed correctly, we tested a random sample of 20 payments. We verified if each payment was correctly approved. In addition, we verified if each payment was correctly coded and posted. Further, we determined if contract maximums were exceeded.

Our audit work was conducted from September 2004 to May 2005 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Administration and the Risk Manager. On September 16, 2005, we met with the Risk Manager to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 21.

Contributors to this report included:

Sandra McGuirk, CPA
Deputy Legislative Auditor

Jane Bailey
Audit Supervisor

Daniel Crossman, CPA
Deputy Legislative Auditor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B
Prior Audit Recommendations

Our 1997 audit of the Risk Management Division contained 10 recommendations. Six of the recommendations related to the Group Insurance Program, which was transferred to the Board of the Public Employees' Benefits Program pursuant to Chapter 573, Statutes of Nevada, 1999. As part of our audit, we requested the Risk Management Division determine the status of the remaining four recommendations. The Division indicated three were fully implemented and one was partially implemented. The scope of our current audit did not include the four prior recommendations. Therefore, we did not verify the Division's implementation of the prior audit recommendations.

Appendix C
Response From the Risk Management Division

KENNY C. GUINN
Governor

STATE OF NEVADA



JOHN P. COMEAUX
Director

SUSAN DUNT
Risk Manager

JIM FRY
Deputy Risk Manager

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Risk Management Division
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MEMORANDUM

DATE: October 3, 2005

TO: Paul Townsend, CPA
Legislative Counsel Bureau

FROM: Susan Dunt, Risk Manager

RE: LCB Audit Requests

A handwritten signature in cursive script that reads "Susan Dunt".

Attached is the Risk Management Division's revised response to LCB's Audit Findings and Recommendations intended to be included as Appendix C to the Audit Findings. I have also completed and included my response to the Audit Recommendations.

Please let me know if you need anything else from me at this time. I understand that the Legislative Commission hearing is scheduled for October 26, 2005 at 9:30 am.

cc: John P. Comeaux, Director

Risk Management Division Response to Audit Findings Appendix C

Controls Over Contracts Need Improvement

Funding Arrangements with TPA Not Adequately Documented

The Division is taking steps to address this matter.

Contracts Not Always Approved by Board of Examiners

Insurance policies:

It is our understanding that NRS 331.184 is a specific statute that grants direct authority to the State Risk Manager to “(n)egotiate for, procure, purchase and have placed ... or continued in place all insurance coverages.” NRS 331.184 does not require the Risk Manager to obtain approval of the Board of Examiners for these insurance coverages. This understanding has been supported via the formal Advisory Opinion of the Chief of State Purchasing as noted in this section of the audit. It is also our understanding that NRS 284.173 is a general statute (vs. a specific statute) applicable to Heads of Departments who contract for the services of persons as independent contractors. Insurance policy agreements (contracts) are significantly different from Independent Contractor Services. It is our understanding that NRS 331.184 supersedes NRS 284.173 as it relates to insurance coverages, i.e. contracts. However we do concur that there is some ambiguity related to this matter and that clarification is indicated. We will request clarification from the Attorney General’s office, and if warranted will pursue any recommended changes to the applicable statute (s), regulations and/or the State Administrative Manual to help clarify this matter.

Contract Amendment:

Contract terms for this specific contract allow the Risk Manager to negotiate for variable services under the contract, as needed, as long as the total costs expended for any fiscal year do not exceed maximum contract costs established for each fiscal year. The Loss Control Service agreement (to become effective January 2004) per se, was not an amendment that needed to be addressed under the terms of this contract, as the Division could have reduced services in other areas to stay within established contract cost terms for the specific fiscal year, if needed. It was the total contract authority cost terms that needed to be amended and that was initiated in early FY 05, prior to combined costs exceeding the initial cost limit. We concur that the optimal timing to initiate the amendment to increase the total cost services of the contract would have been in FY 04 vs. FY 05 or that the Loss Control Service agreement should have been specific to FY04. It should be noted that the contract cost terms were not exceeded in FY 04. In the future we will ensure that the wording for agreements for variable services under this contract are more specifically clarified and in alignment with the cost limits in regard to annual fiscal year spending.

Statewide Contracts Not Adequately Monitored

The Division currently reviews contract spending vs. overall contract authority on an annual basis in conjunction with required reporting from the vendors. The Division acknowledges that communications with agencies regarding the contract usage and spending patterns can be improved and additional procedures can and will be developed that will help ensure that contract authority is not exceeded in any given year.

Inadequate Review of Invoices

Excess Commission Paid

This \$7,000 was an oversight and fortunately the broker was honest and brought this overpayment to our attention prior to us discovering it. Additional procedures will be developed.

Payment Made in the Wrong Fiscal Year

These invoices were related to mold testing and there was an oversight on the part of the contractor that resulted in a delay in the processing of the billing to this Division. Additional procedures will assist in identifying and addressing these type of issues in the future.

Approval Authority Exceeded

Additional procedures and follow up action will be put in place to help prevent this from occurring in the future.

Improved Policies and Procedures

Costs Not Billed Timely

The cause of this one-time oversight has been identified and a new procedure has been developed and implemented.

Claims Processing Procedures Not Always Followed

This has been addressed and will be audited in the future.

Policies and Procedures Not Specific to Risk Management

More comprehensive procedures will be developed as issues are identified.

Risk Management Division Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Improve documentation of the funding agreement with the third party administrator to include the amount provided and the provisions surrounding the funds	<u> X </u>	<u> </u>
2	Submit all applicable contracts and contract amendments to the Board of Examiners for approval.....	<u> X </u>	<u> </u>
3	Require the statewide occupational health contractors and the agencies covered under the statewide contracts to submit reports detailing billings and expenditures made under the contracts in order to ensure contract maximums are not exceeded	<u> X </u>	<u> </u>
4	Develop policies and procedures to ensure: <ul style="list-style-type: none"> • Invoices are adequately reviewed prior to payment, including verifying invoices are consistent with contract terms; • Payments are coded to the correct fiscal year; and • Management approval is appropriately documented 	<u> X </u>	<u> </u>
5	Periodically review and evaluate policies and procedures to determine if changes are needed and revise the procedures when necessary	<u> X </u>	<u> </u>
6	Ensure all claims are processed in accordance with established procedures	<u> X </u>	<u> </u>
7	Develop policies and procedures specific to monitoring brokers	<u> X </u>	<u> </u>
	TOTALS	<u> 7 </u>	<u> 0 </u>