

Audit Highlights



Highlights of Legislative Auditor report on the Risk Management Division issued on May 8, 2013. Report # LA14-05.

Background

The mission of the Risk Management Division is to preserve and protect state property and personnel. According to the Division, this is achieved by integrating agency programs that systematically identify and analyze exposures to risk, selecting and implementing appropriate risk control strategies, financing anticipated or incurred losses, and monitoring regularly for continual improvement and enhancement.

The Division is comprised of two primary sections: Insurance and Loss Prevention, and Workers' Compensation and Safety. The Insurance and Loss Prevention section is responsible for providing automobile, aviation, crime, liability, and property insurance coverage for the State, and other miscellaneous insurance as needed by state agencies. This section also oversees loss prevention services, such as workplace safety training to state employees. The Workers' Compensation and Safety section administers the state's workers' compensation coverage for all state employees and a number of political subdivisions such as boards, commissions, and conservation districts.

The Division has one office in Carson City. For fiscal year 2012, the Division had seven full-time employees and was administered by a Risk Manager. The Division has one operating budget account which is supported by assessments to the agencies it serves. In fiscal year 2012, the Division had expenditures of about \$21 million, which included approximately \$18 million in workers' compensation costs.

Purpose of Audit

The purpose of our audit was to determine if the Division effectively monitors service contracts.

This audit included a review of the Division's contract monitoring activities for the period of July 2011 through December 2012.

Audit Recommendations

This audit report contains seven recommendations to improve contract practices.

The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 2, 2013. In addition, the six-month report on the status of audit recommendations is due on February 3, 2014.

Risk Management Division

Department of Administration

Summary

Overall, the Risk Management Division (Division) provided adequate oversight of its contracts; however, the Division could improve certain contract practices. We found the Division did not always establish a clear and mutual understanding of service expectations and deliverables in its contracts. As a result, the Division has limited assurance its programs are operating as intended. Further, the Division did not always require contractors to provide evidence that certain services were performed, and some payments to vendors were not accurate or proper. Improvements to these processes would help ensure vendor performance is satisfactory and payments are accurate and in compliance with state laws.

Key Findings

Our review of two important broker contracts found the Division did not always establish what the broker was to do, when it was to be done, and what documents should be provided to the Division. One of the Division's contracts is with a broker to oversee and manage the workers' compensation program. We found the Division's expectations were not clearly defined for some of the services listed in the service agreement for clinics that treat injured workers. For example, the agreement states the broker is to conduct on-site visits, monitor wait time, and meet regularly with the clinic manager. However, the Division has not established the frequency of on-site visits, how often to monitor wait time and meet with the clinic manager, or what reports should be provided to the Division. Regular monitoring of these clinics would help ensure they meet Division standards and injured workers receive timely treatment. (page 6)

The Division did not always require brokers to provide evidence that certain services were provided. Further, when documentation was provided, it was not adequately reviewed. As a result, there is an increased risk the Division did not receive all services that were factored into the brokers' fees. The Division contracts with a broker to provide loss prevention services. We reviewed activity reports submitted by the broker and found many of the required weeks for training were not provided. For example, 5 of the 20 required weeks of training in southern Nevada were not provided, 3 of the 5 required weeks of training in rural Nevada were not provided, and 7 of the 8 required weeks for special projects were not provided. Had the Division timely reviewed activity reports submitted by the broker, this issue could have been identified and corrective action taken. (page 10)

The Division may not need to contract for a full-time person to provide training throughout the State. Included in one contract is a requirement that the broker provide one full-time person dedicated to providing training and program development. This includes various types of training to state employees required by the State Administrative Manual, such as defensive driving and workplace safety. We reviewed activity reports for 2012 which were submitted by the broker for this person. The reports indicated there were 46 weeks during the year when this person provided training. Our analysis of the 46 weeks with training found none of the weeks had more than 3 days of training, 18 weeks had 3 days of training, 23 weeks had 2 days of training, and 5 weeks had 1 day of training. In addition, the Division has opportunities to implement technology that should result in cost savings. (page 11)

The Division could strengthen its controls over contract payments. Although most payments we tested were accurate and appropriate, we found some payments did not comply with state law and some payments exceeded the contract rate. For example, the Division paid a former employee for services that were performed prior to expiration of the required "cooling-off" period. This included 11 payments totaling about \$21,300 for services provided in the first year after the person left employment with the State. Some services were provided as soon as 3 weeks after the employee's termination date. NRS 284.1729 does not allow an agency to enter into a contract with a person to provide services if the person is a former employee of an agency of this State and less than 2 years has expired since the termination of the person's employment with the State. (page 13)