

Audit Highlights



Highlights of Legislative Auditor report on the Hearings Division and Victims of Crime Program of the Department of Administration, issued on November 1, 2007. Report # LA08-07.

Background

The Hearings Division's primary responsibility is to adjudicate contested workers' compensation claims. The Division's mission is to provide fair and independent dispute resolution and adjudication in a timely and efficient manner while providing due process for all insurers, employers, injured workers, and others subject to its jurisdiction.

The Division has office locations in Las Vegas and Carson City. For fiscal year 2006, the Division had 45 full-time authorized positions and total expenditures of \$4.3 million. The Division is funded primarily through transfers from the Fund for Workers' Compensation and Safety.

The Victims of Crime Program (Program) is designed to improve services for victims of crime by providing benefits to victims of crime including payment of medical bills, lost wages, and other related benefits.

The Program has office locations in Las Vegas and Reno. For fiscal year 2006, the Program had eight full-time authorized positions and total expenditures of \$5.9 million. The Program is funded primarily from a federal Victims of Crime Act victim compensation grant, court assessments, and assorted fines, forfeitures, and penalties. The Program uses the services of a contractor to perform bill review, claims management, and check processing services.

Purpose of Audit

The purpose of this audit was to determine if the Program's victims' claims management process ensured compliance with Program policies and procedures, and applicable state laws and regulations. We also evaluated whether the Division's and Program's financial and administrative activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. The audit focused on the Division's and Program's activities during fiscal year 2006, and subsequent time periods when necessary to complete the audit's objectives.

Audit Recommendations

This report contains 11 recommendations. Three recommendations address improving controls over the Program's claims management process. We also made eight recommendations to strengthen the Division's and Program's management of financial and administrative controls.

The 11 audit recommendations were accepted.

Status of Recommendations

The 60-day plan for corrective action is due on February 1, 2008. In addition, the six-month report on the status of audit recommendations is due on August 1, 2008.

Hearings Division and Victims of Crime Program

Department of Administration

Results in Brief

The Victims of Crime Program needs to improve its oversight and performance of financial and administrative processes. The Program has not established a process to ensure its ability to pay victims' claims is communicated to the State Board of Examiners. Victims' claims exceeded the Program's available funding during fiscal year 2006 and into fiscal year 2007. As a result, the balance of unpaid victims' claims increased significantly with some payments delayed more than a year. The Program is also subjectively selecting which claims to pay rather than requesting a reduction in payment percentage for all claims, as required by statute. Further, controls over certain administrative functions were not adequate.

The Hearings Division also needs to improve its oversight and performance of financial and administrative processes. We noted significant weaknesses in the Division's controls over contract and budget monitoring. Specifically, the Division did not adequately monitor contract expenditures, resulting in overspent contract maximums. In addition, services were received before proper contract approval was obtained. Furthermore, the Division did not effectively monitor its budget authority, causing a disruption in the performance of hearings services. One Division office postponed 2 weeks of scheduled appeal hearings because budget authority to pay for court reporting services was exhausted.

Principal Findings

Victims' claims exceeded the Program's available funding during fiscal year 2006 and into fiscal year 2007. As a result, \$3.8 million in victims' claims were unpaid as of December 31, 2006. Payment of some of these claims has been delayed for more than a year. Additionally, the average number of days between claim approval and payment increased from 19 days for claims approved in fiscal year 2005 to 79 days for claims approved in fiscal year 2006.

Payments for victims have fluctuated as a percentage of total Program costs from 79% in fiscal year 2001 to 64% in fiscal year 2006. During this period, payments to the Program's contractor performing claims management services increased 173% from \$0.5 million in fiscal year 2001 to almost \$1.4 million in fiscal year 2006.

Claims are subjectively selected for payment when available funds are insufficient to pay all claims. Hospitals and select medical service providers have been given lowest payment priority. Consequently, \$2.4 million of the \$3.8 million in unpaid claims, as of December 31, 2006, pertain to three large medical service providers.

The Program does not have a process to ensure its financial status is communicated quarterly to the Board of Examiners. Therefore, despite insufficient revenues to cover victims' claims, some claims were paid at 100% while others were deferred due to lack of funds during fiscal year 2006 and into 2007. NRS 217.260 requires the Board to estimate revenues and expenditures and reduce the percentage paid of victims' claims on a quarterly basis if projected Program expenses exceed revenues. However, we identified only one instance where the Board was provided with and reviewed the Program's financial status between January 2005 and December 2006.

The Division did not always adequately monitor contract costs and available contract authority. Contract costs exceeded contract maximums by a total of more than \$118,000 in three of the five contracts we reviewed. Additionally, the Division did not obtain proper approval prior to receiving services in all five contracts.

The Division did not effectively monitor its expenses compared to its available budget authority. The Division exceeded its operating expense budget authority until available authority could be reclassified from other budget categories. As a result, 60 appeals hearings were postponed because budget authority was not available to pay the court reporting contractor.

Program and Division receipts were not forwarded timely to the Administrative Services Division for deposit. All six Program deposits tested contained funds which were not deposited in accordance with statutory requirements. Over \$90,000 was not deposited timely, including a check for \$40,187. In addition, one Division office did not maintain a check log or document the date checks were received.

Management could improve its oversight and control over payroll and personnel. Twenty-three of the 26 Division employees had not received current evaluations. Evaluations were on average over 4 years past due, and some were more than 8 years past due.