

Audit Highlights



Highlights of Legislative Auditor report on the Risk Management Division of the Department of Administration, issued on October 26, 2005. Report # LA06-07.

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 of Audit

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.

Audit 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.

The Division accepted all seven recommendations.

Status of Recommendations

The Division's 60-day plan for corrective action is due on January 27, 2006. In addition, the six-month report on the status of the audit recommendations is due July 27, 2006.

Risk Management Division

Department of Administration

Results in Brief

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.

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.

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 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.

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.

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.

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 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.