

OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JUNE 13, 2018

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Office of Risk Management



June 2018

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Introduction

The primary purpose of our procedures at the Office of Risk Management (ORM) was to evaluate certain internal controls ORM uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds.

Results of Our Procedures

We evaluated ORM's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of ORM's internal controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to monitoring of claims payment expenditures, claims liabilities for reserves and annuities, professional services contracts, insurance premium revenues, movable property, purchasing card and Controlled Billed Account (travel) expenditures, and other procedures on the internal audit function.

Monitoring of Claims Payment Expenditures

ORM utilizes a third-party administrator (TPA) to manage and pay claims. According to the terms of the contract, ORM will monitor the claims payments and management services provided by the TPA. We obtained an understanding of ORM's internal controls over the monitoring of claims payments and monthly reconciliations of payments between the TPA and ORM systems.

We performed the following procedures:

- Analyzed daily payment monitoring logs for the period July 2016 through December 2017 that ORM maintains on TPA claims payments. Examined logs on selected dates from each line of insurance and agreed the number of claims payments reviewed to the total required to be reviewed per the contract.
- Analyzed a listing of the TPA's claims payments for the period July 2016 to January 2018, and identified those payments exceeding \$25,000 for Workers' Compensation, Transportation, General Liability, Road Hazard, and Medical

Malpractice, and \$50,000 for Property, which require ORM approval. Examined supporting documentation and ORM approval for selected payments.

- Reviewed reconciliations of claims payments for selected months between the TPA's system and ORM's record of payments to ensure ORM is performing monthly reconciliations and that claims payments in the two systems agree.

Based on the results of our procedures, ORM had adequate internal controls to ensure claims payments are monitored in accordance with contract terms, adequately supported and properly approved, and monthly reconciliations are being performed.

Claims Liabilities for Reserves and Annuities

Reserves for claims liabilities represent the outstanding losses estimated on claims. We obtained an understanding of ORM's internal controls over claims liabilities reserves and amounts due on annuities purchased to pay out certain claims.

We performed the following procedures for the period July 2016 through March 2018:

- Analyzed listing of claims liability reserves established by TPA. Selected claims that had increases exceeding \$100,000 and reviewed support for increases and evidence of ORM approval as required by ORM monitoring guidelines.
- Agreed the reserves for claims liability net of estimated recoveries in the fiscal year 2017 annual fiscal report (AFR) to the actuary's opinion total of \$978,713,432.
- Compared fiscal year 2016 to 2017 reserve totals per line of insurance and obtained explanations from management for significant variances.
- Analyzed support for annuity purchases and balances. Agreed amount due on annuities in the fiscal year 2017 AFR (\$42,131,647) to agency supporting schedule.

Based on the results of our procedures, ORM had adequate internal controls to ensure claims liabilities reserves are established and increased, estimated recoveries are properly considered, and annuities are managed in accordance with ORM policies and procedures.

Professional Services Contracts

ORM utilizes professional services contracts for third-party claims administration, claims litigation, actuary services, statewide elevator inspections, and disaster recovery. ORM's contracts in effect during the period under review totaled approximately \$110 million. We

obtained an understanding of ORM's internal controls over the execution, monitoring, and payment of these contracts.

We analyzed the listing of contracts for the period July 1, 2016, through January 31, 2018, and examined selected contracts and payments. Based on the results of our procedures, ORM had adequate internal controls to ensure contracts were properly executed in compliance with applicable laws and regulations; sufficient monitoring occurred; payments were approved and in accordance with contract terms; and sufficient documentation was maintained in the TPA's viaOne system to support the payments.

Insurance Premium Revenues

Approximately 89% of ORM's fiscal year 2017 revenue collections consisted of interagency premium receipts. ORM determines the self-insurance premiums that will be billed to state agencies. We obtained an understanding of ORM's internal controls over insurance premium revenues.

We selected state agencies with premium assessments for the period July 2016 through January 2018, and agreed to amounts invoiced and collected. Based on the results of our procedures, ORM had adequate internal controls in place to ensure that revenue collections were assessed, billed, and collected properly.

Movable Property

We obtained and reviewed the Certifications of Annual Property Inventory totaling approximately \$120,000 for fiscal years 2017 and 2018 to determine if there was an excessive amount of unlocated property. Based on the results of our procedures, we determined that assets were properly safeguarded and complied with state property regulations.

Purchasing Card and Controlled Billed Account (Travel) Expenditures

ORM participates in the State of Louisiana's LaCarte Purchasing Card Program for general office supplies and administrative expenses and the Controlled Billed Account (CBA) program for travel, airfare, and vehicle rental expenses. We obtained an understanding of ORM's internal controls over access to and use of the LaCarte card and CBA. We analyzed LaCarte card and CBA transaction listings for the period July 2016 through January 2018. Based on the results of our procedures, transactions were reviewed and approved, monthly logs of expenditures were maintained, and reconciliations of logs to receipts were performed.

Other Procedures - Internal Audit Function

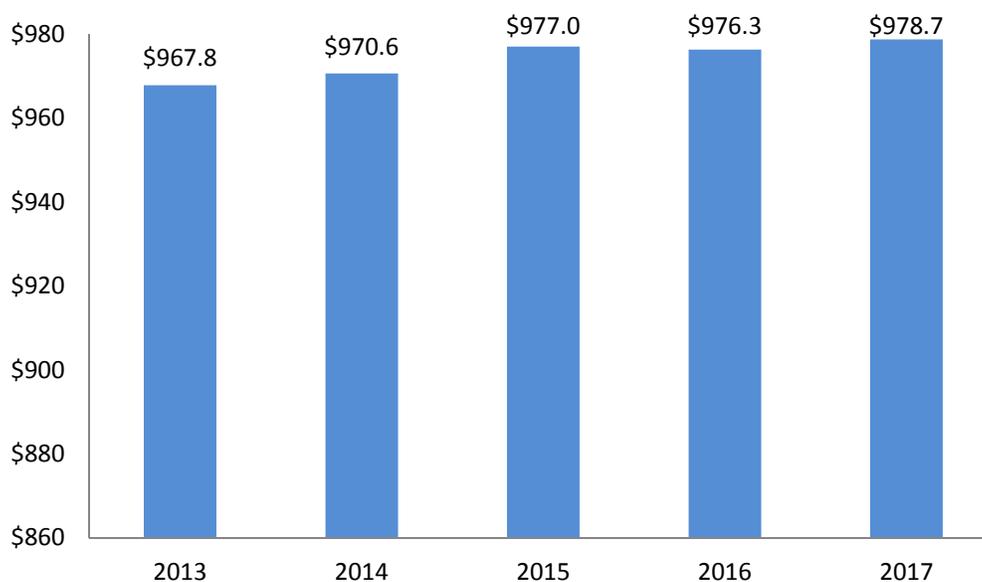
In addition to the procedures noted previously, we performed certain procedures that included obtaining, documenting, and reviewing internal controls and compliance with related laws and regulations over the internal audit function. Based on the results of these procedures performed, we found no issues or weaknesses that were required to be reported.

Trend Analysis

We compared the most current and prior-year financial activity using ORM's Annual Fiscal Reports and/or system-generated reports and obtained explanations from ORM's management for any significant variances. We also prepared an analysis of the net reserve for estimated claims liability and a break out of those total net reserve balances by line of insurance over the last five fiscal years.

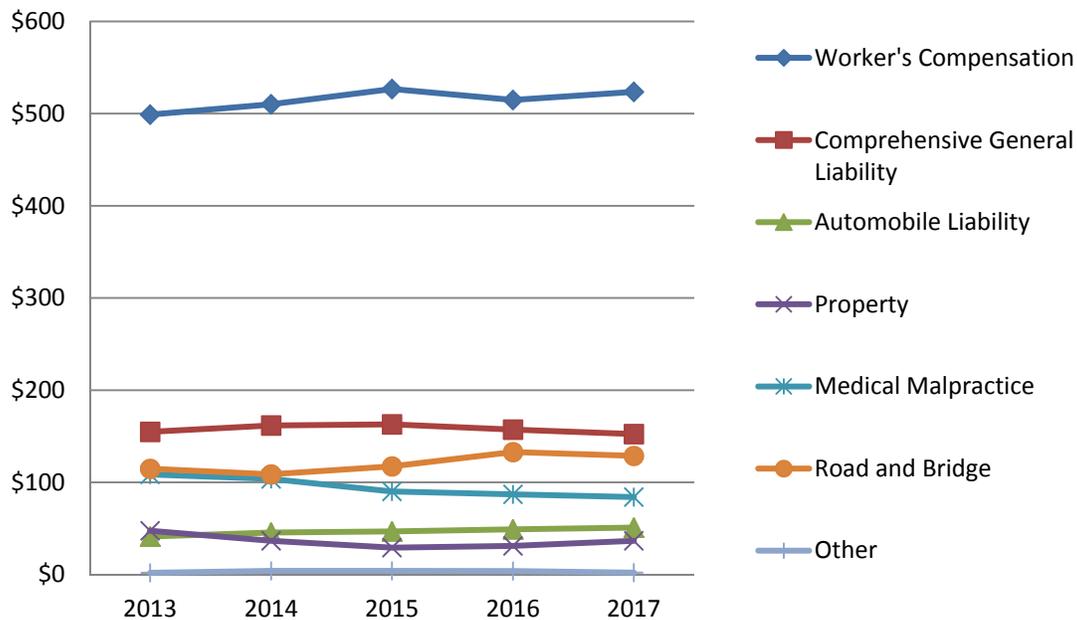
In analyzing net reserve estimates over the past five fiscal years, total net reserves for claims liability increased slightly by \$11 million, or 1%, resulting from a wide variety of factors. ORM reserve liabilities include case reserves, expense reserves, incurred but not reported reserves, and unallocated reserves covering multiple lines of business. Per ORM, while the reserve projections are reviewed by the actuary for reasonableness and consistency, any estimate of future costs has inherent limitations in predicting the ultimate loss over time.

Exhibit 1
Total Net Reserves for Estimated Claims Liability, by Fiscal Year
(in millions)



Source: Fiscal Year 2013-2017 ORM Schedule of Reserves

Exhibit 2
Net Reserves by Line of Insurance, by Fiscal Year
(in millions)



Source: Fiscal Year 2013-2017 ORM Schedule of Reserves

Other Report

On March 8, 2017, a report on the *Types and Costs of General Liability Claims* was issued by LLA's Performance Audit Services. The report provides information relating to the types and costs of general liability claims filed against the State of Louisiana that closed during fiscal years 2010 through 2015. This report is available on the LLA website at lla.la.gov.

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
 Legislative Auditor

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APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Risk Management (ORM) for the period from July 1, 2016, through May 29, 2018. Our objective was to evaluate certain internal controls ORM uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. The scope of our procedures, which are summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review ORM's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. ORM's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated ORM's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to ORM.
- Based on the documentation of ORM's internal controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to monitoring of claims payment expenditures, claims liabilities for reserves and annuities, professional services contracts, insurance premium revenues, movable property, purchasing card and Controlled Billed Account (travel) expenditures, and other procedures on the internal audit function.
- We compared the most current and prior-year financial activity using ORM's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from ORM's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at ORM and not to provide an opinion on the effectiveness of ORM's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.