

OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED MAY 20, 2020

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Office of Risk Management



May 2020

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Introduction

The primary purpose of our procedures at the Office of Risk Management (ORM) was to evaluate certain controls ORM uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide 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 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 claims payment review, claims liabilities for reserves and annuities, professional services contracts, insurance premium revenues, payroll and personnel, and purchasing card and Controlled Billed Account (travel) expenditures.

Claims Payment Review

ORM utilizes a third-party administrator (TPA), Sedgwick, 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. To gain an understanding of the process, we obtained ORM's Contract Management Oversight and Performance Monitoring Guidelines (Guidelines) and monthly reconciliations of payments between the TPA and ORM systems.

We performed the following procedures:

- Analyzed daily payment logs that ORM maintains on claims payments for the period July 2018 through December 2019. Examined logs on selected dates from each line of insurance and agreed the number of claims payments reviewed by supervisors to the total required per ORM's Guidelines.
- Analyzed a listing of claims payments for the period July 2018 to January 2020 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's 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 claims payments were monitored in accordance with ORM's Guidelines, properly approved, and monthly reconciliations were 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 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 2018 through December 2019:

- Analyzed listing of claims liability reserves established by the TPA. Selected claims that had increases exceeding \$250,000 and reviewed support for increases and evidence of ORM approval.
- Agreed the reserves for claims liability net of estimated recoveries in the fiscal year 2019 annual fiscal report (AFR) to the actuary's opinion total of \$1,070,555,609.
- Compared fiscal year 2018 to fiscal year 2019 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 2019 AFR (\$39,600,296) to agency supporting schedule.

Based on the results of our procedures, ORM had adequate 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

We reviewed the listing of contracts for the period July 1, 2018, through January 31, 2020, and examined selected contracts and payments related to commercial insurance broker services, actuary services, statewide elevator inspections, and disaster recovery. We obtained an understanding of ORM's controls over the execution and payment of these contracts. Based on the results of our procedures, ORM had adequate controls to ensure these contracts were

properly executed in compliance with applicable laws and regulations; payments were in accordance with contract terms; and sufficient documentation was maintained to support the payments.

Insurance Premium Revenues

Approximately 82% of ORM's fiscal year 2019 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 controls over insurance premium revenues.

We selected state agencies with premium assessments for the period July 2018 through January 2020 and agreed to amounts invoiced and collected. Based on the results of our procedures, ORM had adequate controls in place to ensure that revenue collections were assessed, billed, and collected properly.

Payroll and Personnel

Salaries and related benefits comprise approximately 2% and 3% of ORM's expenditures in fiscal years 2019 and 2020. We obtained an understanding of ORM's controls over the time and attendance function and reviewed employee time statements and leave records. Based on the results of our procedures, ORM had adequate controls in place to ensure timely review and approval of employee time statements and leave requests, employees were paid the amounts authorized, and leave taken was properly accounted for.

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 controls over access to and use of these cards. We analyzed LaCarte card and CBA transaction listings for the period July 2018 through January 2020 and reviewed selected transactions. Based on the results of our procedures, ORM had adequate controls to ensure that purchases were approved and made for proper business purposes; sufficient documentation was maintained to support purchases; and purchases were properly reconciled to invoices and receipts.

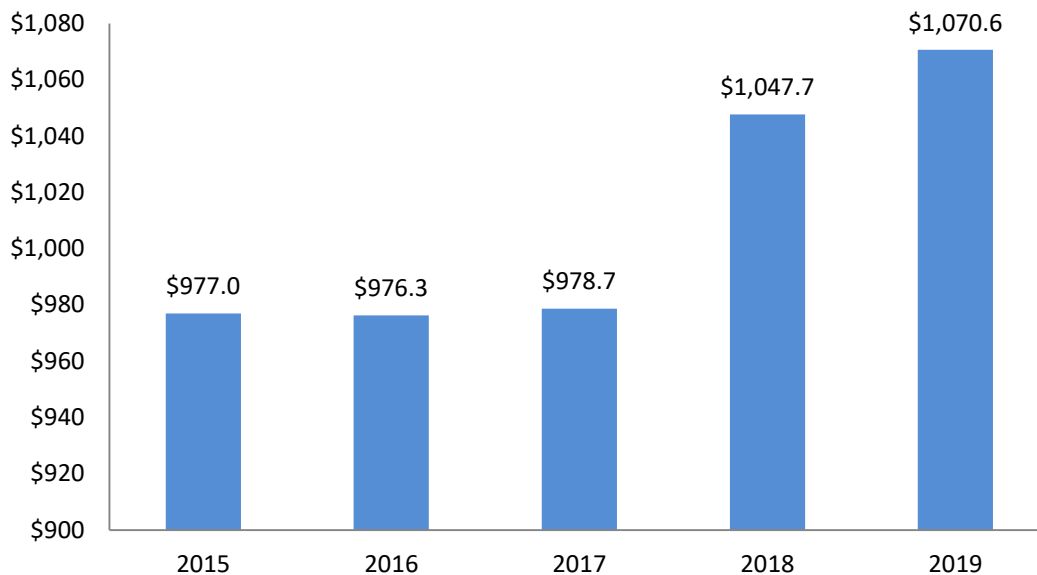
Trend Analysis

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.

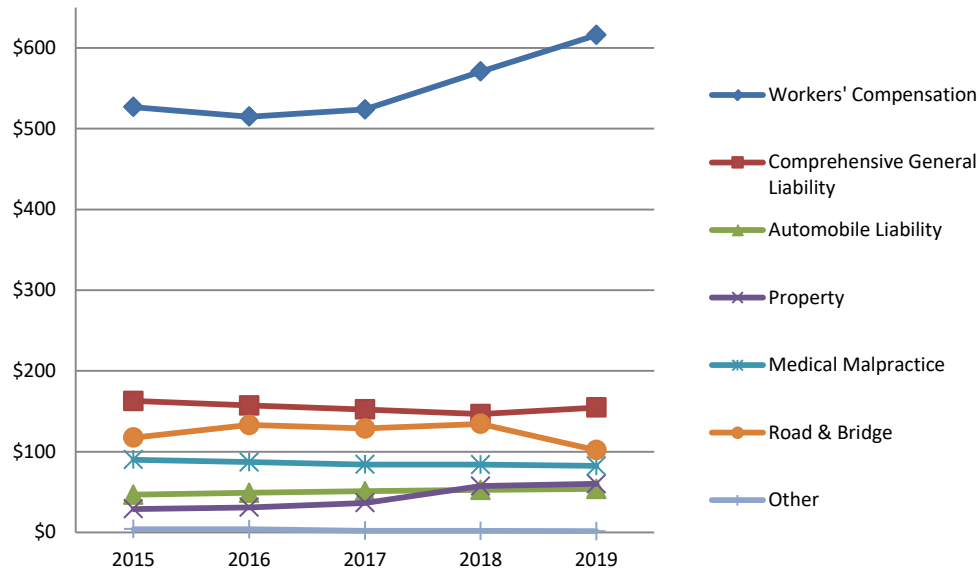
In analyzing net reserve estimates over the past five fiscal years, total net reserves for claims liability increased by \$93.5 million, or 10%, primarily in the Workers' Compensation and Property lines of insurance. For Workers' Compensation, ORM noted that the reserve method was updated for older cases where the claimant will be receiving benefits for life, combined with an increased cost of medical care for permanently disabled workers. In addition, there is an increase in workers classified as temporarily totally disabled, which have an outsized cost as the treatment may be intensive and is focused on returning these individuals to work. Finally, the state's workforce is aging, and older workers are more susceptible to injuries, with both higher frequency and severity. Per ORM, the Property reserve increases are directly related to disaster loss events that have occurred since 2015, including the two 2016 floods, Hurricane Harvey, a localized flood event, and a tornado in Ruston.

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




Source: Fiscal Year 2015-2019 ORM Schedule of Reserves

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



Source: Fiscal Year 2015-2019 ORM Schedule of Reserves

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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ORM 2020

APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Risk Management (ORM) for the period from July 1, 2018, through April 30, 2020. Our objective was to evaluate certain 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 is 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 the ORM's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The 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 controls and our understanding of related laws and regulations, and results of our analytical procedures, we performed procedures on selected controls and transactions relating to claims payment review, claims liabilities for reserves and annuities, professional services contracts, insurance premium revenues, payroll and personnel, and purchasing card and Controlled Billed Account (travel) expenditures.
- 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.