

# OFFICE OF RISK MANAGEMENT

DIVISION OF ADMINISTRATION

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

**Procedural Report**  
**Issued October 2, 2024**

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# Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA



## Office of Risk Management

October 2024

Audit Control # 80240022

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## Introduction

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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 accountability over public funds. In addition, we determined whether management has taken action to correct the finding reported in the prior report.

## Results of Our Procedures

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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 relating to claims payment review, claims liabilities for reserves and annuities, attorney general – division of risk litigation contracts, insurance premium revenues, and payroll and personnel.

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### Follow-up on Prior-report Finding

We reviewed the status of the prior-report finding in ORM's procedural report dated September 7, 2022. We determined that management has resolved the prior-report finding related to Weakness in Controls over Payroll.

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### 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 payment logs that ORM maintains on claims payments for the period July 2022 through March 2024. Examined logs on selected dates from each line of insurance. Confirmed ORM maintained documentation to support the review. Evaluated the total number of claims payments reviewed by supervisors to ensure minimum requirements were met and monitoring procedures were in accordance with ORM's Guidelines.
- Analyzed a listing of claims payments for the period July 2022 to March 2024 and identified those payments exceeding \$25,000 for Workers' Compensation, Transportation, General Liability, Road Hazard, and Medical Malpractice, as well as \$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, were properly approved, and monthly reconciliations were being performed.

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### **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:

- Analyzed listing of claims liability reserves established by the TPA for the period July 2022 through March 2024. 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 2023 annual fiscal report (AFR) to the actuary's opinion total of \$1,018,169,559.
- Analyzed support for annuity purchases and balances. Agreed amount due on annuities in the fiscal year 2023 AFR (\$33,337,833) to agency supporting schedule.

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

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### **Attorney General – Division of Risk Litigation Contracts**

We performed an analysis of Attorney General – Division of Risk Litigation (AG/DORL) contract expenditures for the period July 2022 through March 2024. We obtained an understanding of ORM's controls over the payments of these contracts. The AG/DORL provides legal representation for certain claims against the state. The AG/DORL shall notify ORM of the attorney assigned and ORM must advise of its concurrence when a contracted attorney is appointed. We selected attorneys appointed for the period July 2022 through March 2024 and reviewed evidence of ORM's concurrence.

Based on the results of our procedures, ORM had adequate controls to ensure payments to the Attorney General did not exceed contract amounts, and attorney assignments were properly authorized.

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### **Insurance Premium Revenues**

Approximately 76% of ORM's fiscal year 2023 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 2022 through March 2024 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.

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### **Payroll and Personnel**

Salaries and related benefits comprise approximately 2% of ORM's expenditures in fiscal years 2023 and 2024. We obtained an understanding of ORM's controls over the time and attendance function and reviewed system reports for the certification and approval of employee time statements during the period July 2022 through March 2024. We also reviewed pay rate changes for the period July 2022 through March 2024. 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, and employees were paid the amounts authorized.

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## 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.

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Waguespack", with a long horizontal flourish extending to the right.

Michael J. "Mike" Waguespack, CPA  
Legislative Auditor

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ORM2024

## APPENDIX A: SCOPE AND METHODOLOGY

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We performed certain procedures at the Office of Risk Management (ORM) for the period from July 1, 2022, through June 30, 2024. Our objective was to evaluate certain controls ORM uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and 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 relating to claims payment review, claims liabilities for reserves and annuities, attorney general – division of risk litigation contracts, insurance premium revenues, and payroll and personnel.
- 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.