

OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
SEPTEMBER 7, 2022

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA

Office Risk Management



September 2022

Audit Control # 80220041

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 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 relating to claims payment review, claims liabilities for reserves and annuities, professional services contracts, Attorney General - Division of Risk Litigation contracts, revenues - insurance premium and other receipts, and payroll and personnel.

Current-report Finding

Weakness in Controls over Payroll

ORM did not timely approve time and attendance records. ORM utilizes the electronic time sheets in the Cross-Application Time Sheets system.

Our review of system reports for the pay periods ending between July 1, 2020, and June 12, 2022, identified the following exceptions:

- 81 (4.0%) of 2,030 time statements were approved by the employees’ supervisor between one and 378 days (or an average of 21 days) after the payroll posting date.
- 66 (3.3%) of 2,030 time statements were not approved by the employees’ supervisor.

ORM policy requires employees and supervisors to certify and/or approve time statements for accuracy no later than the Wednesday following the close of the pay period. ORM employees did

not adhere to controls over payroll to approve hours actually worked. As a result, there is an increased risk that errors and/or fraud could occur and not be detected in a timely manner.

Management should ensure employees comply with existing policies and procedures, including properly approving timesheets in a timely manner. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

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 2020 through March 2022. 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 2020 to March 2022, 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:

- Analyzed listing of claims liability reserves established by the TPA for the period July 2020 through February 2022. 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 2021 annual fiscal report (AFR) to the actuary's opinion total of \$1,164,612,645.
- Compared fiscal year 2020 to fiscal year 2021 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 2021 AFR (\$36,490,258) 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, 2020, through February 28, 2022, and examined selected contracts and payments related to commercial insurance broker services, claims management, actuary services, statewide elevator inspections, and disaster recovery. We obtained an understanding of ORM's controls over the payment of these contracts. Based on the results of our procedures, ORM had adequate controls to ensure these contract payments were in accordance with contract terms; and sufficient documentation was maintained to support the payments.

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 1, 2020, through February 28, 2022. We obtained an understanding of ORM's controls over the payments of these contracts. We reviewed selected AG/DORL claim payments and compared to amounts in the claims management system. Based on the results of our procedures, ORM had adequate controls to ensure payments to the Attorney General did not exceed contract amounts and amounts paid by AG/DORL agreed to the claims management system.

Revenues - Insurance Premium and Other Receipts

Approximately 64% of ORM's fiscal year 2021 revenue collections consisted of interagency premium receipts. In addition, ORM received approximately \$100 million in insurance proceeds relating to Hurricane Laura. 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 2020 through February 2022, and agreed to amounts invoiced and collected. In addition, we reviewed supporting documentation for insurance proceeds collected by ORM in relation to Hurricane Laura. Based on the results of our procedures, ORM had adequate controls in place to ensure that revenue collections were assessed, billed, and collected properly and insurance proceeds were supported.

Payroll and Personnel

Salaries and related benefits comprise approximately 2% of ORM's expenditures in fiscal years 2021 and 2022. 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 1, 2020, through June 12, 2022. We reviewed pay rate changes for the period July 1, 2020, through March 17, 2022. Based on the results of our procedures, except as noted in the Current-report Finding section, ORM had adequate controls in place to ensure timely review and approval of employee time statements and employees were paid the amounts authorized.

Trend Analysis

We compared the most current and prior-year financial activity using ORM's AFRs and/or system-generated reports and obtained explanations from ORM's management for any significant variances.

Other Reports

On May 27, 2020, a report was issued by Louisiana Legislative Auditor's (LLA) Performance Audit Services. The purpose of this audit was to evaluate Department of Justice's (DOJ) and ORM's processes for selecting and overseeing attorneys defending claims against the state. Overall LLA's Performance Audit Services found that DOJ and ORM need to strengthen their processes related to the selection and oversight of attorneys who defend claims against the state. This report is available on the LLA website.

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

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

APPENDIX A: MANAGEMENT'S RESPONSE

Office of Risk Management
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

August 19, 2022

Mr. Michael J. "Mike" Waguespack, CPA
Legislative Auditor
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Office of Risk Management LLA Procedures Audit 2022 – Weakness in Controls Over Payroll

Dear Mr. Waguespack,

ORM concurs with the findings as described in this audit.

The finding states the following:

"ORM policy requires employees and supervisors to certify and/or approve time statements for accuracy no later than the Wednesday following the close of the pay period."

The Division of Administration (DOA) provides human resources services to ORM through the Office of Human Resources. Therefore, ORM is required to adhere to DOA Personnel Policy #99, Electronic Certification of Employee Time Statements.

Based on the content of the finding, there were instances where ORM supervisors did not approve employee certifications of time and attendance records to comply with DOA Personnel Policy #99. A corrective action plan was initiated when these items were first brought to our attention during the review process:

- At the beginning of June 2022, ORM implemented executive level monitoring of certifications and approvals through a LaGov ZP241 report, with personal follow-ups with employees and/or supervisors that had not yet completed certifications or approvals. This monitoring will continue indefinitely and is conducted by Marsha Pemble, State Risk Assistant Director, backed up by ORM's Accountant Administrator. This is in addition to the tracking and review processes completed each pay period by ORM's Personnel Liaison.
- Executive leadership initiated a meeting on June 8, 2022 with all supervisors to review DOA Personnel Policy #99 and reiterated requirements to be in compliance each pay period.
- A notation of explanation in the electronic time statement is required when initial certifications and/or approvals are made outside of the normal deadlines.

ORM employees have reported that they do not receive timely system-generated notifications to certify and/or approve time entries, including re-certifications and re-approvals. The Office of Technology Services has recently made modifications to the LaGov/CATS system whereby time entries that may need re-certification and/or re-approval are now highlighted in red font. When

Mr. Mike Waguespack, Legislative Auditor
August 19, 2022
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the system does not generate a notification, these highlights will draw attention to an outstanding item needing action upon entry into the CATS system.

We appreciate your review of ORM's procedures and your identification of this weakness in our controls and monitoring. We will ensure that employees are in compliance with the DOA Policy regarding timely certification and approval of time statements.

Sincerely,



Melissa Harris
State Risk Director

c: Desireé Honoré Thomas, Assistant Commissioner
Erin Sindelar, DOA Internal Audit

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Risk Management (ORM) for the period from July 1, 2020, through June 30, 2022. 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, professional services contracts, Attorney General – Division of Risk Litigation contracts, revenues - insurance premium and other receipts, 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.