

Audit Highlights



Highlights of Legislative Auditor report on the Division of Industrial Relations of the Department of Business and Industry, issued on October 26, 2005. Report # LA06-06.

Background

The Division of Industrial Relations (DIR) promotes the health and safety of Nevada employees and ensures that injured employees receive all workers' compensation benefits to which they are entitled. DIR enforces safety and health standards promulgated under the Nevada Occupational Safety and Health Act; assists employers in identifying and correcting unsafe working conditions; and inspects and provides safety training for all operating mine properties within the State. DIR also regulates workers' compensation programs and assures compliance with the coverage provisions required by the Nevada Industrial Insurance Act.

DIR is comprised of the Administrator's Office, Division Counsel, and five sections. DIR is primarily funded by assessments to insurance companies. DIR also receives federal grants and revenues from fees, fines, and penalties. In fiscal year 2004, DIR had a total of 202 authorized full-time equivalent positions and operating expenditures of approximately \$15.4 million.

Purpose of Audit

The purpose of this audit was to evaluate the Division of Industrial Relations' financial and administrative activities, including whether activities were carried out in accordance with applicable state laws, regulations, and policies. This audit focused on the Division's financial and administrative activities during fiscal year 2004.

Audit Recommendations

This audit report contains 15 recommendations to improve the Division of Industrial Relations' financial and administrative activities. These recommendations include policies, procedures, and other controls to help ensure timely action for workers' compensation programs and adequate monitoring of accounts receivable. We also made recommendations to strengthen the processes for safety inspections and improve controls over some administrative functions.

The Division accepted all fifteen 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.

Division of Industrial Relations

Department of Business and Industry

Results in Brief

The Division of Industrial Relations (DIR) could strengthen its controls over workers' compensation programs and accounts receivable. DIR did not always take timely action to penalize uninsured employers or collect accounts receivable. In addition, better management information would assist DIR with using its risk-based approach for conducting workplace inspections. Improvements in monitoring regulated entities would provide additional assurance that laws are enforced and the public is adequately protected.

Principal Findings

DIR did not always assess premium penalties to uninsured employers in a timely manner. We reviewed a judgmental sample of 25 premium penalties and found 19 took greater than 350 days from when DIR was notified of an uninsured employer until a penalty was assessed. In fiscal year 2004, DIR assessed about 600 premium penalties for a total of \$1.85 million. When penalties are not assessed timely, there is an increased risk the penalty will not be collected. In addition, there is less incentive for employers to maintain insurance at all times, increasing the risk of future uninsured claims.

DIR did not always provide timely notification of its decisions regarding subsequent injury claims. We reviewed a judgmental sample of 25 claims and identified 6 instances when DIR did not notify the applicable party within the required time period. The six untimely determinations were an average of 28 days late. The primary purpose of the three subsequent injury funds is to encourage employers to hire workers who have suffered a permanent physical impairment. When the applicable party is not notified within the 90-day limit, there is less incentive for employers to hire workers with prior injuries.

The Workers' Compensation Section did not always comply with statutory timeframes for resolving complaints. For example, the Workers' Compensation Section failed to issue timely determinations in 12 of the 20 complaints we tested. These 12 determinations ranged from 4 to 107 days past their statutory timeframes. Untimely determinations can result in complainants waiting too long to receive benefits to which they are entitled.

DIR does not have an effective process to ensure timely submittal of accounts receivable to the Controller's Office for outside collection. DIR has procedures for sending demand letters and submitting receivables to the Controller. However, these procedures were not always followed. For example, collection efforts for 14 of 15 fines and penalties we reviewed did not comply with timelines established in DIR procedures.

Accounts receivable balances reported to the Controller's Office on June 30, 2004, were inaccurate. For example, accounts receivable balances did not include over \$1.67 million in premium penalties receivable. Further, the Division's accounts receivable include many delinquent accounts which may be uncollectible.

The asbestos inspection process should include additional steps to provide reasonable assurance that all contractors are properly licensed and inspected. We obtained a list of asbestos contractors licensed with the Nevada State Contractors' Board and compared it to the DIR list of licensed contractors. We identified 18 asbestos contractors on the Contractors' Board list that were not licensed by DIR. As a result, there is an increased risk some contractors performing asbestos abatement are not licensed and inspected by DIR as required. Further, we reviewed 15 contractors licensed by DIR that performed asbestos abatement during fiscal year 2004. Three did not receive annual inspections as required by state law.

DIR uses a risk-based approach for scheduling workplace safety and health inspections. However, DIR does not track certain information that would assist management in optimizing a risk-based approach. The need for a risk-based approach is significant because the Occupational Safety and Health Administration Section (OSHA) has a staff of 36 inspectors to cover more than 52,000 companies and numerous construction jobs in Nevada. High-risk industries include: construction, certain types of manufacturing companies, and hotels and casinos with 100 or more employees. Identifying all large construction projects and tracking the percentage inspected would assist OSHA in determining if the number of inspections is providing adequate coverage. In addition, compiling data showing the time period between inspections for hotels and casinos would assist management in maximizing a risk-based approach.