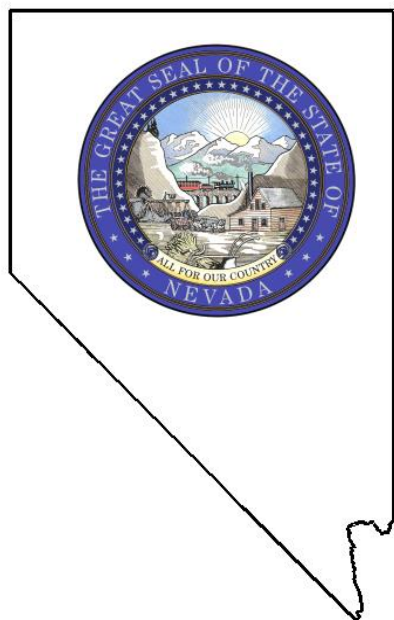


STATE OF NEVADA

Audit Report

Department of Administration
Risk Management Division

2013



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of Legislative Auditor report on the Risk Management Division issued on May 8, 2013. Report # LA14-05.

Background

The mission of the Risk Management Division is to preserve and protect state property and personnel. According to the Division, this is achieved by integrating agency programs that systematically identify and analyze exposures to risk, selecting and implementing appropriate risk control strategies, financing anticipated or incurred losses, and monitoring regularly for continual improvement and enhancement.

The Division is comprised of two primary sections: Insurance and Loss Prevention, and Workers' Compensation and Safety. The Insurance and Loss Prevention section is responsible for providing automobile, aviation, crime, liability, and property insurance coverage for the State, and other miscellaneous insurance as needed by state agencies. This section also oversees loss prevention services, such as workplace safety training to state employees. The Workers' Compensation and Safety section administers the state's workers' compensation coverage for all state employees and a number of political subdivisions such as boards, commissions, and conservation districts.

The Division has one office in Carson City. For fiscal year 2012, the Division had seven full-time employees and was administered by a Risk Manager. The Division has one operating budget account which is supported by assessments to the agencies it serves. In fiscal year 2012, the Division had expenditures of about \$21 million, which included approximately \$18 million in workers' compensation costs.

Purpose of Audit

The purpose of our audit was to determine if the Division effectively monitors service contracts.

This audit included a review of the Division's contract monitoring activities for the period of July 2011 through December 2012.

Audit Recommendations

This audit report contains seven recommendations to improve contract practices.

The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 2, 2013. In addition, the six-month report on the status of audit recommendations is due on February 3, 2014.

Risk Management Division

Department of Administration

Summary

Overall, the Risk Management Division (Division) provided adequate oversight of its contracts; however, the Division could improve certain contract practices. We found the Division did not always establish a clear and mutual understanding of service expectations and deliverables in its contracts. As a result, the Division has limited assurance its programs are operating as intended. Further, the Division did not always require contractors to provide evidence that certain services were performed, and some payments to vendors were not accurate or proper. Improvements to these processes would help ensure vendor performance is satisfactory and payments are accurate and in compliance with state laws.

Key Findings

Our review of two important broker contracts found the Division did not always establish what the broker was to do, when it was to be done, and what documents should be provided to the Division. One of the Division's contracts is with a broker to oversee and manage the workers' compensation program. We found the Division's expectations were not clearly defined for some of the services listed in the service agreement for clinics that treat injured workers. For example, the agreement states the broker is to conduct on-site visits, monitor wait time, and meet regularly with the clinic manager. However, the Division has not established the frequency of on-site visits, how often to monitor wait time and meet with the clinic manager, or what reports should be provided to the Division. Regular monitoring of these clinics would help ensure they meet Division standards and injured workers receive timely treatment. (page 6)

The Division did not always require brokers to provide evidence that certain services were provided. Further, when documentation was provided, it was not adequately reviewed. As a result, there is an increased risk the Division did not receive all services that were factored into the brokers' fees. The Division contracts with a broker to provide loss prevention services. We reviewed activity reports submitted by the broker and found many of the required weeks for training were not provided. For example, 5 of the 20 required weeks of training in southern Nevada were not provided, 3 of the 5 required weeks of training in rural Nevada were not provided, and 7 of the 8 required weeks for special projects were not provided. Had the Division timely reviewed activity reports submitted by the broker, this issue could have been identified and corrective action taken. (page 10)

The Division may not need to contract for a full-time person to provide training throughout the State. Included in one contract is a requirement that the broker provide one full-time person dedicated to providing training and program development. This includes various types of training to state employees required by the State Administrative Manual, such as defensive driving and workplace safety. We reviewed activity reports for 2012 which were submitted by the broker for this person. The reports indicated there were 46 weeks during the year when this person provided training. Our analysis of the 46 weeks with training found none of the weeks had more than 3 days of training, 18 weeks had 3 days of training, 23 weeks had 2 days of training, and 5 weeks had 1 day of training. In addition, the Division has opportunities to implement technology that should result in cost savings. (page 11)

The Division could strengthen its controls over contract payments. Although most payments we tested were accurate and appropriate, we found some payments did not comply with state law and some payments exceeded the contract rate. For example, the Division paid a former employee for services that were performed prior to expiration of the required "cooling-off" period. This included 11 payments totaling about \$21,300 for services provided in the first year after the person left employment with the State. Some services were provided as soon as 3 weeks after the employee's termination date. NRS 284.1729 does not allow an agency to enter into a contract with a person to provide services if the person is a former employee of an agency of this State and less than 2 years has expired since the termination of the person's employment with the State. (page 13)

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Legislative Building
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our completed audit of the Risk Management Division. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes seven recommendations to improve contract practices. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

April 26, 2013
Carson City, Nevada

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Introduction

Background

The mission of the Risk Management Division (Division) is to preserve and protect state property and personnel. According to the Division, this is achieved by integrating agency programs that systematically identify and analyze exposures to risk, selecting and implementing appropriate risk control strategies, financing anticipated or incurred losses, and monitoring regularly for continual improvement and enhancement.

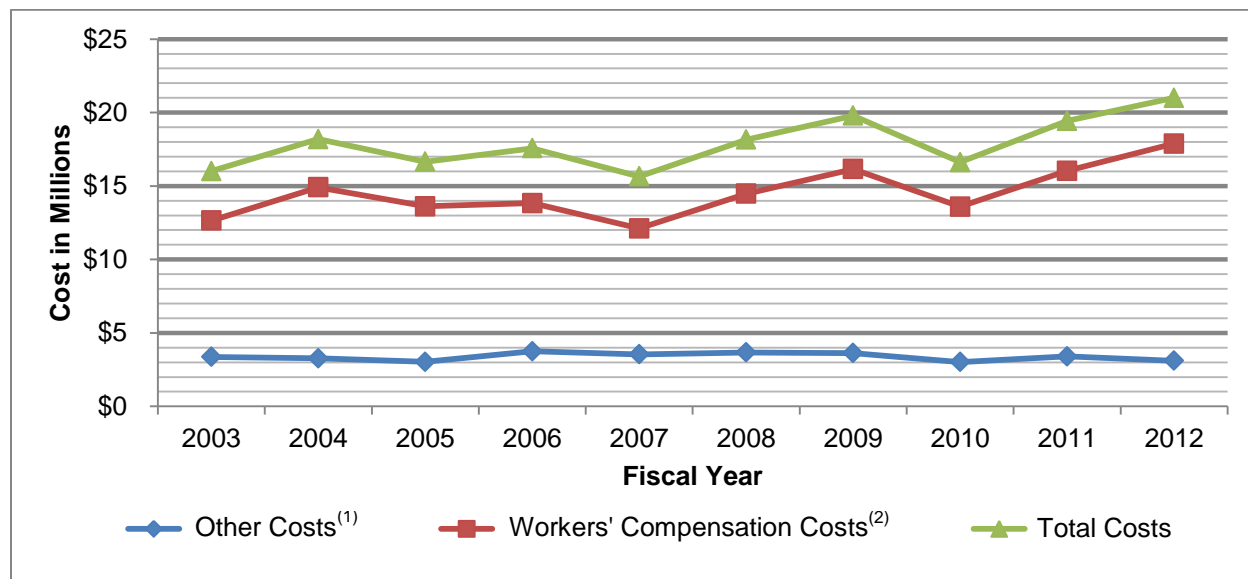
The Division is comprised of two primary sections: Insurance and Loss Prevention, and Workers' Compensation and Safety. The Insurance and Loss Prevention section is responsible for providing automobile, aviation, crime, liability, and property insurance coverage for the State, and other miscellaneous insurance as needed by the state's agencies. This section also oversees loss prevention services, such as workplace safety training to state employees. The Workers' Compensation and Safety section administers the state's workers' compensation coverage for all state employees and a number of political subdivisions such as boards, commissions, and conservation districts.

Staffing and Budget

The Division has one office in Carson City. For fiscal year 2012, the Division had seven full-time employees and was administered by a Risk Manager. The Division has one operating budget account which is supported by assessments to the agencies it serves. In fiscal year 2012, the Division had expenditures of about \$21 million, which included approximately \$18 million in workers' compensation costs. Exhibit 1 shows total Division expenditures, workers' compensation costs, and other costs for fiscal years 2003 through 2012.

**Total Division Expenditures
Workers' Compensation Costs, and Other Costs
Fiscal Years 2003 to 2012**

Exhibit 1



Source: State accounting records.

⁽¹⁾ Other costs include personnel, administration, and insurance premiums.

⁽²⁾ Workers' compensation costs include claims, broker fees, and the workers' compensation premium.

As shown in Exhibit 1, workers' compensation costs are a significant portion of total costs and have increased in 4 of the last 5 years.

Contractors Provide Important Services for the Division

The Division contracts with multiple independent contractors dedicated to providing statewide services in support of the agency's mission. This primarily includes contracts with brokers to provide various services. Exhibit 2 shows an overview of the services provided by contracted brokers, and the fiscal year 2012 broker fees.

**Broker Services and
Fiscal Year 2012 Broker Fees**
Exhibit 2

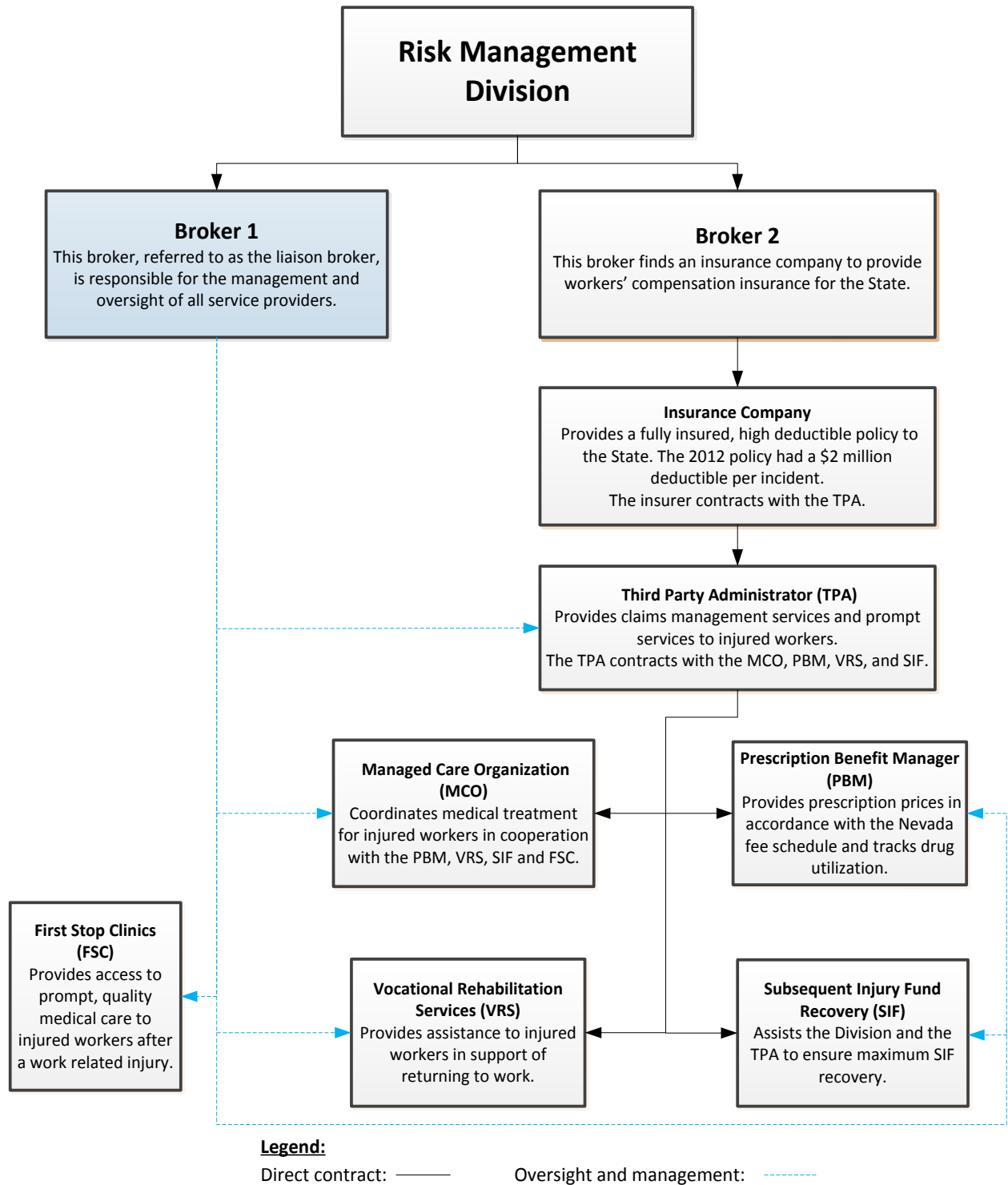
Contractor	Services Provided	Fiscal Year 2012 Broker Fees
Broker 1	<ul style="list-style-type: none"> • Manage and oversee all components of the workers' compensation program. • Contract with other vendors to perform site and workplace safety inspections. 	<ul style="list-style-type: none"> • \$452,308 • These services are on an as-needed basis. Cost per hour is not to exceed \$70 and annual total cost is not to exceed \$125,000.
Broker 2	<ul style="list-style-type: none"> • Procure workers' compensation policy. • Procure excess liability policy. • Provide loss prevention services. This includes training state employees and overseeing the heart and lung program. • Provide actuarial study. 	<ul style="list-style-type: none"> • \$280,710 • \$ 40,000 • \$390,000 • \$ 9,000
Broker 3	<ul style="list-style-type: none"> • Procure property and machinery policy. • Procure crime policy. • Procure aviation policy. 	<ul style="list-style-type: none"> • \$100,000 • \$ 3,182 • \$ 5,843

Source: Auditor analysis of agency records.

A significant amount of the workers' compensation functions are performed by brokers and other vendors. Exhibit 3 shows the key participants in the workers' compensation program, their duties, and their contractual relationships.

Key Participants in the Workers' Compensation Program

Exhibit 3



Source: Auditor analysis of agency records.

Additionally, each state agency assigns liaisons and the Division coordinates services through these designated liaisons.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit focused on the Division's contract monitoring activities for the period of July 2011 through December 2012. The objective of our audit was to determine if the Division effectively monitors service contracts.

Contract Practices Could Be Improved

Overall, the Risk Management Division (Division) provided adequate oversight of its contracts; however, the Division could improve certain contract practices. We found the Division did not always establish a clear and mutual understanding of service expectations and deliverables in its contracts. As a result, the Division has limited assurance its programs are operating as intended. Further, the Division did not always require contractors to provide evidence that certain services were performed, and some payments to vendors were not accurate or proper. Improvements to these processes would help ensure vendor performance is satisfactory and payments are accurate and in compliance with state laws.

Contract Requirements Not Always Clearly Established

Our review of two important broker contracts found the Division did not always establish what the broker was to do, when it was to be done, and what documents should be provided to the Division. As a result, the Division has limited assurance brokers are performing all duties necessary to maintain an effective workers' compensation and loss prevention program.

One of the Division's contracts is with a broker to oversee and manage the workers' compensation program. In addition, the Division and broker annually negotiate a work performance agreement. This agreement is to establish the contract terms, including services to be provided by the broker for each of the vendors it is supposed to monitor¹.

We found the Division's expectations were not clearly defined for some of the services listed in the agreement. Exhibit 4 shows services listed in the service agreement with the broker that could be better defined.

¹ See Appendix A for a list of primary services to be provided by the broker.

Broker Services Not Clearly Defined**Exhibit 4**

Service Listed in the Agreement	Entity Broker Is to Review
<ul style="list-style-type: none"> • Oversee and monitor budget 	Third Party Administrator
<ul style="list-style-type: none"> • Monitor budget • Analyze medical costs 	Managed Care Organization
<ul style="list-style-type: none"> • Conduct on-site visits • Monitor wait time • Meet regularly with clinic manager to discuss problems 	First Stop Clinics
<ul style="list-style-type: none"> • Monitor vendors for compliance and cost 	Vocational Rehabilitation

Source: Fiscal year 2013 service agreement with broker.

As noted in Exhibit 4, some of the services that were not clearly defined involved the First Stop Clinics. The agreement states the broker is to conduct on-site visits, monitor wait time, and meet regularly with the clinic manager. However, the Division has not established the frequency of on-site visits, how often to monitor wait time and meet with the clinic manager, or what reports should be provided to the Division. Regular monitoring of these clinics would help ensure they meet Division standards and injured workers receive timely treatment. When an injury occurs, the worker is supposed to go to a First Stop Clinic or an emergency room for treatment. Another example of a service that was not clearly defined was “monitor budget.” Our review found the Division has not established what it expects the broker to do in order to adequately provide this service.

“A Guide to Best Practices for Contract Administration,” issued by the Office of Federal Procurement Policy, states there should be a communication process that helps government and the contractor achieve a clear and mutual understanding of the contract requirements. This process should also include the specific contract deliverable requirements, and the agency’s procedures for monitoring and measuring performance.

We also reviewed the Division’s contract with a broker to provide loss prevention services. This service agreement requires the broker to provide two full-time individuals dedicated to providing services to the State. One person is to provide workplace safety and other types of training to state employees. The other person

is to provide health and wellness services, including administration of the heart and lung program for police and firemen. This includes services such as diet and nutrition counseling, cardiovascular disease training, and diabetes training. For the health and wellness person, the Division did not clearly establish what the contractor was to do, when it was to be done, and what documents should be provided to the Division. This limits the Division's assurance that all tasks and duties related to the administration of the heart and lung program are properly completed.

The service agreement requires each of the contractor's employees to spend a certain number of weeks per quarter in various parts of the State. We reviewed 2012 activity reports submitted by the person responsible for the health and wellness program and found there was minimal training reported. Upon further inquiry, we were informed the training and travel requirements in the service agreement are not applicable to this person. Clearly established requirements for this person are important because proper administration of the heart and lung program can help prevent certain future workers' compensation claims. State laws and regulations entitle police officers, correctional officers, and firemen who develop heart or lung disease after 5 years of service to a conclusive presumption that the disease is work related, provided certain conditions are met. Claims costs related to this special benefit can be quite significant when permanent total disability is involved.

Claims Audit Requirement Not Included in the Service Agreement With Workers' Compensation Liaison Broker

The service agreement with the workers' compensation liaison broker does not require the broker to perform a claims audit of the Third Party Administrator (TPA). However, in the Request for Qualifications, an incorporated document of the contract, the broker states one of the key components of the workers' compensation program is claims audits of the TPA. Further, the broker states it will conduct annual claims audits and spot audits, upon the direction of the Risk Manager, throughout the year to determine the level of compliance of the TPA with the Division's

performance standards. The results of these audits are used to help the Division evaluate the effectiveness of the programs.

We found the broker does not perform an annual claims audit of the TPA. Rather, it performs a weekly audit of about five TPA files. However, the value of these audits is diminished because the files reviewed are selected by the TPA's claims supervisor. Further, the Division does not require or obtain a written report showing the results of the audits.

Fees Were Not Clearly Established for One Broker

One of the Division's contracts did not clearly indicate the agreed-upon broker fee for procuring an insurance policy. The Division contracts with, but does not necessarily use, five brokers. Once the Division decides which broker is authorized to procure certain insurance policies, its process does not include steps that require the agreed-upon fee to be clearly stated, and properly documented and approved.

The contract with one broker states the fee for service is not to exceed a 10% commission or a negotiated fee. The broker was paid a commission for procuring two policies. But, when the broker was paid a flat fee for one policy, the amount of the fee was not properly documented and approved. "Best Practices in Contracting for Services," issued by the National State Auditors Association, states contracts for the purchase of services must be formal, written documents. Contracts should document the mutual agreement and clearly state the contract terms.

This particular broker is authorized by the Division to procure multiple insurance policies. The contract includes a maximum payment amount over the life of the contract, but is not specific regarding the fee for procuring individual insurance policies. If the broker were to dispute the fee, there may be an increased risk of additional costs to the State.

The Division paid the same broker a commission based on 10% of the premium for two types of policies. Commission fees based on a percentage of the premium do not provide the broker incentive to find the lowest premium. Our discussion with the Risk Manager

indicated a flat fee is generally preferred. However, there may be instances when the Division determines a commission is appropriate. When this occurs, the decision should be documented and properly approved.

**Contract
Monitoring
Did Not
Ensure All
Services Were
Provided**

The Division did not always require brokers to provide evidence that certain services were provided. Further, when documentation was provided, it was not adequately reviewed. As a result, there is an increased risk the Division did not receive all services that were factored into the brokers' fees.

One of the Division's important contracts is with a broker to manage and oversee the workers' compensation program. The service agreement requires the broker to provide many services that involve multiple vendors. We reviewed the service agreement to determine if the Division obtained evidence that all services listed were performed. Our review found:

- For some of the services, it would not be necessary or practical for the broker to provide documentation. Rather, the Division is able to confirm the service is provided through its constant communications with the broker.
- For some of the services, some type of document or report should be provided, and the Division did obtain reports at its monthly business and staffing meetings.
- For certain services, some type of document or report should be provided, and the Division did not require the broker to provide documentary evidence the service was performed.

We also tested the service agreement with another broker for loss prevention services. Exhibit 5 shows the monitoring issues noted for these two contracts.

Monitoring Issues for Broker Service Contracts

Exhibit 5

Program Area/Type of Service	Monitoring Issues Noted
Workers' Compensation/Management and Oversight Services	<p>For the following services, some type of document or report should be provided, and the Division did not require the broker to provide documentary evidence the service was performed.</p> <ul style="list-style-type: none"> • First Stop Clinics – There was no evidence of an on-site visit for 9 of 12 clinics in southern Nevada. • First Stop Clinics – There was no evidence wait time was monitored for all clinics. • First Stop Clinics – There was no evidence of regular meetings with clinic managers to discuss problems. • Vocational Rehabilitation – There was no evidence all vendors were monitored for compliance and cost.
Loss Prevention/Training to State Employees	<p>Ten of sixteen quarterly requirements for training in various parts of the State and time spent on special projects were not met. We found:</p> <ul style="list-style-type: none"> • Five of the twenty required weeks for training in southern Nevada were not provided. • Three of the five required weeks for training in rural Nevada were not provided. • Seven of the eight required weeks for special projects were not provided. Special projects include development of curriculum and E-Learning modules.

Source: Auditor analysis of agency records.

As noted in Exhibit 5, many of the required weeks for training were not provided for the loss prevention program. Had the Division timely reviewed activity reports submitted by the broker, this issue could have been identified and corrective action taken. "Best Practices in Contracting," issued by the National State Auditors Association, states contract monitoring should ensure that contractors comply with contract terms and performance expectations are achieved.

Potential Cost Savings for State Employee Training Program

The Division may not need to contract for a full-time person to provide training throughout the State. As previously mentioned in this report, the Division contracts with a broker to provide loss prevention services. Included in the contract is a requirement that the broker provide one full-time person dedicated to providing training and program development. This includes various types of

training to state employees required by the State Administrative Manual, such as defensive driving and workplace safety.

We reviewed activity reports for 2012 which were submitted by the broker for this person. The reports indicated there were 46 weeks during the year when this person provided training. Our analysis of the 46 weeks with training found:

- None of the weeks had more than 3 days of training.
- 18 weeks had 3 days of training.
- 23 weeks had 2 days of training.
- 5 weeks had 1 day of training.

In addition, this person did not report any activities for 45 working days during the year.

We were informed there is no training on Mondays or Fridays. When classes were held on these days in prior years, attendance by state employees was low. Our review found there was only one class on a Monday during 2012.

In addition, the Division has opportunities to implement technology that should result in cost savings. Specifically, the technology and equipment is close to being ready to allow for some classes to be taught via videoconference and to be available online. Because the current contract requires training to be provided in various locations throughout the State, travel costs are factored into the broker's fee. As a result, the State may be paying the contractor more than necessary because the fee is based on providing a full-time person and related travel costs.

Meetings to Discuss Goals and Outcomes Could Be Beneficial

The Division did not consistently conduct meetings for its two broker service contracts to discuss goals, outcomes, and vendor performance. As a result, there is an increased risk the Division is not timely identifying whether program goals are met. In one of the incorporated documents for the liaison broker contract, the broker states it "will work closely with the new Risk Management

Team to assess past performance of vendors and establish goals and outcomes for the coming year. Each component of the workers' compensation program should be analyzed to assess its strengths and weaknesses in order to fine tune the performance of the overall program.”

Although the Division meets regularly with the liaison broker, who provides management and oversight of other workers' compensation service providers, our review found these meetings do not routinely discuss all elements of the service agreement, establish vendor goals and outcomes, or assess past performance of vendors. We also found the results of some meetings were not documented or documentation was limited.

We requested the Division provide evidence goals and outcomes had been established and past performance of vendors was assessed for the workers' compensation program. The Division's response was silent regarding goals and outcomes and stated assessment of vendor performance is part of the weekly and monthly meetings.

The Division did not fully comply with its policy for monitoring broker contracts, which states:

Routine follow-up, at least semi-annually, is coordinated with each broker representative to review the service plan and deliverables. Documentation is maintained regarding the results of the meeting.

For the loss prevention broker, who provides safety training to state employees and administers the heart and lung program, our review found some items in the service agreement were not discussed at meetings. This included site inspections, special projects, and whether training and travel requirements were met. We also noted one meeting discussed goals and one discussed outcomes, but these topics were not consistently discussed.

Controls Over Payments Can Be Strengthened

The Division could strengthen its controls over contract payments. Although most payments we tested were accurate and appropriate, we found some payments did not comply with state law and some payments exceeded the contract rate. The

Division's policies and procedures for payments do not include steps to help ensure all payments are accurate and appropriate.

The Division made payments to one of its former employees for services that were performed prior to expiration of the required "cooling-off" period. This included 11 payments totaling about \$21,300 for services provided in the first year after the person left employment with the State. We found some services were provided as soon as 3 weeks after the employee's termination date. NRS 284.1729 does not allow an agency to enter into a contract with a person to provide services if the person is a former employee of an agency of this State and less than 2 years has expired since the termination of the person's employment with the State. Prior to July 1, 2011, the statute required a 1-year "cooling-off" period. When former employees provide services shortly after termination with the State, there is an increased risk the contractor was not chosen based on cost and qualifications.

We also found the Division made some inaccurate payments, although the dollar amount of these overpayments was not significant. This included one payment that exceeded the contract rate by \$500. In addition, there were three payments that included a charge for mileage. However, there was no provision in the contract that allowed mileage to be included. According to management, the Division received a refund for these overpayments. The Division should be aware of applicable laws and contract provisions prior to approving payment.

Recommendations

1. Revise service agreements with brokers to communicate a clear and mutual understanding of the contract requirements and include the specific contract deliverables.
2. Revise the workers' compensation service agreement to include a claims audit or review requirement. This should include an independently selected sample, the frequency of audits, and documentation requirements.
3. Revise the process for instances when brokers procure an insurance policy to include steps that help ensure broker fees are clearly stated, and properly documented and

approved. When broker fees are based on a commission instead of a flat fee, document the decision was properly approved.

4. Revise policies and procedures for monitoring broker contracts to help ensure contractors provide all required services.
5. Evaluate the training needs of the loss prevention program and potential cost savings measures. This includes determining if it is necessary for the contractor to charge a fee based on a full-time training person, and the potential benefits of implementing online classes and videoconferences.
6. Revise the contract monitoring policy to require meetings with brokers, at least annually, to discuss goals, outcomes, past performance of vendors, and items in the service agreement not routinely addressed at monthly meetings. Implement controls to ensure the results of these meetings are well documented.
7. Revise procedures for expenditures to include steps that provide reasonable assurance all payments are accurate and appropriate.

Appendix A

Primary Services to Be Provided by the Workers' Compensation Broker

According to the service agreement, the broker is required to provide the following services for each of the vendors listed.

Broker Services for the Third Party Administrator (TPA)

- Review of TPA contract
- Negotiation of TPA budget
- Development and oversight of TPA implementation plan
- Monitor and direct monthly business meetings
- Monitor monthly staffing meetings
- Review all TPA monthly reports
- Assist in creation and maintenance of Roles and Responsibilities Procedures
- Assist and monitor Risk Protocol
- Assist TPA with issues related to other vendors
- Assist Risk Management in issues related to TPA training and best practices
- Interface with insurance carrier on issues related to claims, reserves, and deductible claims
- Oversee and monitor budget
- Request and monitor corrective action plans upon notification of Division of Industrial Relations complaints

Broker Services for the Managed Care Organization (MCO)

- Monitor contract and budget
- Review nurse case management issues monthly
- Oversee and monitor performance of nurses at monthly staffing meetings
- Assist in increasing communication between MCO and the TPA and all other vendors and First Stop Clinics
- Assist with marketing surveys to provide recommendations for improvement of services
- Analyze medical costs

Appendix A

Primary Services to Be Provided by the Workers' Compensation Broker (continued)

Broker Services for the Pharmacy Program

- Develop monthly performance report for monitoring utilization and costs
- Prior authorization requests
- Review narcotics report
- Communicate with the MCO regarding pharmacy protocols and service
- Develop contract review and performance standards

Broker Services for the State First Stop Clinics

- Assist in selection of clinics
- Ensure statewide access
- Conduct on-site visits
- Monitor wait time
- Meet regularly with clinic manager to discuss problems
- Provide feedback on C4s (injured worker's claim form), and injured worker complaints
- Facilitate resolution of Risk Management concerns, TPA issues and MCO problems

Broker Services for the Insurance Carrier

Provide interface services with:

- Vendor services
- Legal Department
- Claims handling services
- Loss services
- Underwriting Division

Broker Services for Subsequent Injury Fund Recovery (SIF)

- Provide assistance with communications between the TPA and Risk Management to ensure maximum SIF recovery
- Review legislation biannually to monitor any changes in this area of law

Broker Services for Vocational Rehabilitation

- Monitor vendors for compliance and cost
- Monitor legislation that would affect the program

Source: Fiscal year 2013 service agreement.

Appendix B

Audit Methodology

To gain an understanding of the Risk Management Division, we interviewed staff and reviewed statutes, regulations, state administrative procedures, and policies and procedures significant to the Division's operations. We also reviewed financial information, budgets, legislative committee minutes, and other information describing activities of the Division. Further, we documented and assessed internal controls over workers' compensation payments, performance measures, and service contracts.

To evaluate the process for monitoring broker contracts, we first determined if the Division implemented best practices and complied with its policy for monitoring broker service contracts. We selected all four broker contracts for workers' compensation oversight and loss prevention services in effect during our audit scope. For each contract, we determined if there was a service agreement and the deliverables were clearly established; documented dates when the Division met with the broker; verified whether the results of the meetings were documented; and reviewed the meeting notes to determine if the meetings addressed all elements of the service agreements.

To evaluate the monitoring of loss prevention services, we reviewed all activity logs submitted by the broker for its full-time employees during calendar year 2012. We documented the days and weeks with training and travel and compared them to quarterly requirements in the service agreement. We also discussed various issues with staff.

To determine if best practices for monitoring service contracts were implemented, we reviewed contracting best practices contained in guides issued by the National State Auditors Association and the Office of Federal Procurement Policy.

To determine if the Division complied with its policy for monitoring contracts for the procurement of an insurance policy, we identified which brokers were paid to procure an insurance policy and which types of policies were obtained. We selected all 10 policies in effect during our audit scope. For each policy, we verified the Division obtained a report of marketing results from the brokers. We also analyzed payments for each policy to determine if the Division implemented best practices regarding flat fee and commission payments.

To determine if contract payments agreed with contract terms and if all services were received, we judgmentally selected 40 invoices totaling almost \$2.5 million. Judgment was based on first reviewing a list of contracts and service agreements and selecting six types of broker services. For each type of service, we selected from 1 to 11 invoices based on the significance of payment amounts and a variety of subcontractors. For each selection, we reviewed the invoice and tested whether the payment amount was accurate and the invoice provided adequate detail all services were provided.

For payments to the workers' compensation liaison broker, it is not practical for the invoice to provide adequate detail all services were provided. Thus, we performed additional testing to determine if the Division required the broker to provide evidence all services were performed. First, we reviewed all services listed in the service agreement and identified instances when the Division should require documentation from the broker. Next, we reviewed agendas, notes, and documentation from monthly meetings, and attended a monthly meeting to determine if adequate documentation was provided or the service was discussed at the monthly meetings. For services not addressed at the meeting, we requested the Division provide evidence the services were performed. Next, we analyzed the service agreement to identify instances when the agreement does not adequately define what the broker is to do and what documents should be provided to the Division. We also discussed related issues with management.

Our audit work was conducted from August 2012 to March 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Risk Manager of the Risk Management Division. On April 19, 2013, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 21.

Contributors to this report included:

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Appendix C

Response From the Risk Management Division

Brian Sandoval
Governor



Jeff Mohlenkamp
Director

Ana M. Andrews
Risk Manager

STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
Risk Management Division

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MEMORANDUM

DATE: April 25, 2013

TO: Paul V. Townsend, CPA
Legislative Auditor

FROM: Ana M. Andrews, Risk Manager 

SUBJECT: Risk Management Division's Response to Audit Recommendations

Following are the Risk Management Division's responses to the 2013 Audit Report and Recommendations.

Recommendation #1.

Revise service agreements with brokers to communicate a clear and mutual understanding of the contract requirements and include the specific contract deliverables.

Response to Recommendation #1.

We accept this recommendation and we welcome the opportunity to revise the service agreements with the division's brokers to better communicate a clear and mutual understanding of the contract requirements and deliverables.

Recommendation #2.

Revise the workers' compensation service agreement to include a claims audit or review requirement. This should include an independently selected sample, the frequency of audits, and documentation requirements.

Risk Management Division's Response to Audit Recommendations
April 25, 2013
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Response to Recommendation #2.

We accept this recommendation and we will revise the workers' compensation service agreement to clarify and reflect the need for a "claims review" requirement of an "independent sample" to be performed on a monthly basis and to ensure proper documentation is provided by the broker.

Recommendation #3.

Revise the process for instances when brokers procure an insurance policy to include steps that help ensure broker fees are clearly stated, and properly documented and approved. When broker fees are based on a commission instead of a flat fee, document the decision was properly approved.

Response to Recommendation #3.

We accept this recommendation and we will implement a procedure to further clarify the insurance policy(ies) binding documents to include a separate page documenting whether the broker will be paid a flat fee or a percentage commission. Further we will require the broker to submit separate invoices: one for the insurance premium and another one for the broker's fees or commission.

Recommendation #4.

Revise policies and procedures for monitoring broker contracts to help ensure contractors provide all required services.

Response to Recommendation #4.

We accept this recommendation and welcome the opportunity to revise the division's policies and procedures and specifically the sections relating to the "monitoring of broker contracts."

Recommendation #5.

Evaluate the training needs of the loss prevention program and potential cost savings measures. This includes determining if it is necessary for the contractor to charge a fee based on a full-time training person, and the potential benefits of implementing online classes and videoconferences.

Response to Recommendation #5.

We accept this recommendation. The division is currently evaluating the training needs of the loss prevention program as it is in its core mission per NRS 331.184 (10), S.A.M. 0521 (2)(c) and the Governor's Executive Order regarding safety. Further, this

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evaluation is being conducted to better utilize the videoconferencing equipment acquired by the division. The service agreement with the contractor will be reviewed to better define the training to be provided as well as the fees to be charged for said training.

Recommendation #6.

Revise the contract monitoring policy to require meetings with brokers, at least annually, to discuss goals, outcomes, past performance of vendors, and items in the service agreement not routinely addressed at monthly meetings. Implement controls to ensure the results of these meetings are well documented.

Response to Recommendation #6.

We welcome the opportunity to revise the contract monitoring policy and we agree with the recommendation to better streamline and document the goals and outcomes with each broker. This includes establishing an agenda and taking minutes to reflect the outcome of the meeting(s).

Recommendation #7.

Revise procedures for expenditures to include steps that provide reasonable assurance all payments are accurate and appropriate.

Response to Recommendation #7.

We accept this recommendation and will revise the internal controls for the division to ensure that all payments are accurate and appropriate. This includes bringing back procedures that were eliminated by past management as being onerous and burdensome.

Risk Management Division's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Revise service agreements with brokers to communicate a clear and mutual understanding of the contract requirements and include the specific contract deliverables.....	<u> X </u>	<u> </u>
2. Revise the workers' compensation service agreement to include a claims audit or review requirement. This should include an independently selected sample, the frequency of audits, and documentation requirements.....	<u> X </u>	<u> </u>
3. Revise the process for instances when brokers procure an insurance policy to include steps that help ensure broker fees are clearly stated, and properly documented and approved. When broker fees are based on a commission instead of a flat fee, document the decision was properly approved.....	<u> X </u>	<u> </u>
4. Revise policies and procedures for monitoring broker contracts to help ensure contractors provide all required services.....	<u> X </u>	<u> </u>
5. Evaluate the training needs of the loss prevention program and potential cost savings measures. This includes determining if it is necessary for the contractor to charge a fee based on a full-time training person, and the potential benefits of implementing online classes and videoconferences.....	<u> X </u>	<u> </u>
6. Revise the contract monitoring policy to require meetings with brokers, at least annually, to discuss goals, outcomes, past performance of vendors, and items in the service agreement not routinely addressed at monthly meetings. Implement controls to ensure the results of these meetings are well documented.....	<u> X </u>	<u> </u>
7. Revise procedures for expenditures to include steps that provide reasonable assurance all payments are accurate and appropriate.....	<u> X </u>	<u> </u>
TOTALS	<u> 7 </u>	<u> 0 </u>