

OFFICE OF RISK MANAGEMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED APRIL 26, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$14.88. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 8402 or Report ID No. 05703340 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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April 18, 2006

OFFICE OF RISK MANAGEMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2005, we considered the Office of Risk Management's internal control over financial reporting. We examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements, and we tested the office's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements as required by *Government Auditing Standards*.

The Annual Fiscal Report of the Office of Risk Management is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The office's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Office of Risk Management for the year ended June 30, 2004, we reported findings relating to the unfunded claims costs for the road hazard line of insurance and misstated reserves and untimely reimbursement requests for second injury claims. The finding related to the unfunded claims costs for road hazards claims is addressed again in this letter. The finding related to misstated reserves and untimely reimbursement requests has been partially resolved by management and is addressed in the finding on untimely reimbursement requests from the Second Injury Fund in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2005.

**Unfunded Claims Costs for the
Road Hazard Line of Insurance**

For the second consecutive year, the Office of Risk Management (ORM) is allocating costs associated with processing road hazard claims (including legal fees) to the road hazard line of insurance without collecting premiums or direct appropriations to cover the costs. The deficit in the road hazard line of insurance increases each year by the costs

associated with processing road hazard claims because ORM does not receive any funds to cover these costs. At June 30, 2005, ORM has accumulated a deficit of over \$560 million in the road hazard line of insurance. For the year ended June 30, 2005, costs associated with processing road hazard claims totaled \$12.9 million, but no insurance premiums or state appropriations were collected to cover these costs. Sound business practices dictate that premiums or appropriations should be collected to fund required claim payments, settlements, and associated costs (including legal fees) for each line of insurance.

The Division of Administration made a decision effective July 1, 2002, that ORM would no longer pay settlements and judgments for road hazard claims from premiums collected. Settlements and judgments are now paid through direct legislative appropriation. However, no provision has been made for the associated costs of processing road hazard claims, including legal fees, other professional services, and salaries for the adjusters handling the claims.

ORM included an estimate of premiums for the road hazard line of insurance in its budget request submitted to the Office of Planning and Budget for the year ended June 30, 2005. However, the Office of Planning and Budget cut 100% of the road hazard premium from the budget request.

The Division of Administration and ORM should develop premiums and/or present suggestions to the legislature as to how the state might fund future costs associated with processing road hazard claims, as well as develop a funding methodology to eliminate the accumulated deficit over time. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Untimely Reimbursement Requests From the Second Injury Fund

As reported in previous audits, ORM has not requested timely reimbursements from the Second Injury Fund. Louisiana Revised Statute 23:1378 states that payments on approved second injury claims must be submitted to the Second Injury Board within 180 days of the date the claim was approved by the board or within one year from the date of the payment, whichever occurs later. ORM has contracted with a vendor to process all second injury reimbursements. However, ORM is not adequately monitoring the reimbursement requests processed by the vendor to ensure that all requests are submitted in a timely manner. Failure to request reimbursements in a timely manner may affect ORM's ability to recover costs and to comply with state law.

In a test of 10 approved second injury claims with 398 payments made between July 1, 2004, and December 31, 2004, we identified 201 (51%) payments totaling \$113,696 that had not been submitted to the Second Injury Board for reimbursement as of November 18, 2005. Of those payments not submitted, 128 payments totaling \$46,202 are no longer eligible for reimbursement from the fund because the payments were not submitted within one year of the payment date.

ORM should develop policies and procedures that would allow management to adequately monitor the requests for reimbursement from the Second Injury Fund. The procedures should include a reconciliation to ensure that all eligible claim payments in the claim management system are requested for reimbursement from the Second Injury Fund. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

No Internal Audit Function

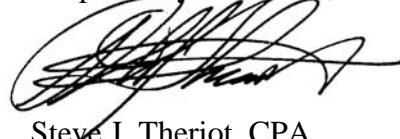
ORM does not have an internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise internal controls. Act 4 of the 2004 Regular Session of the Louisiana Legislature requires ancillary agencies with budgets in excess of \$30 million to use existing program resources and the table of organization to establish an internal auditor position. Considering the size of ORM's reported assets (\$60,953,708) and revenues (\$157,816,424), an effective internal audit function is important to ensure that assets are safeguarded and that management's policies and procedures are uniformly applied.

Management should establish an internal audit function to provide assurance that assets are safeguarded and to ensure that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the office. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the office should be considered in reaching decisions on courses of action. Findings relating to compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the office and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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[ORM05]

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Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

February 24, 2006

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot:

Finding: Unfunded Claims Costs for the Road Hazard Line of Insurance

The Office of Risk Management (ORM) concurs with the finding.

ORM calculates and includes an amount for premiums in the road hazard line of insurance in its budget request each year to cover current year cash needs and reduce the \$560 million plus accumulated deficit. There is an Attorney General opinion that Transportation Trust Fund monies cannot be used to pay insurance premiums. Since Fees and Self Generated Revenue collected by the Department of Transportation and Development is not sufficient to pay the premium, the Legislature would have to appropriate monies from other funds to pay the premium. The Legislature has chosen to only appropriate funds to pay a limited number of settlements and judgments each year rather than fund the road hazard portion of the State self-insurance fund.

ORM will continue to actuarially calculate premiums for the road hazard insurance line and submit them in the Office of Risk Management annual budget request. In addition, ORM will emphasize the cost of processing road hazard claims within the budget request.

The contact person for this finding is J. S. "Bud" Thompson, Jr.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. S. Thompson, Jr.", written over a horizontal line.

J. S. "Bud" Thompson, Jr.
State Risk Director

JST/THA/tha



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

KATHLEEN BABINEAUX BLANCO
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February 24, 2006

Mr. Steve Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 97397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot

Finding: Untimely Reimbursement Requests from the Second Injury Fund

The Office of Risk Management (ORM) concurs with the finding.

The Office of Risk Management employs a vendor, Reimbursements Consultants Inc., to investigate and secure Second Injury Fund (SIF) claims reimbursements. The contract vendor conducts reviews onsite once every four months to gather documentation and submit requests for reimbursements on approved claims. The payments that were not requested on time and are still eligible for submission to the SIF have been reviewed and submitted for reimbursement.

ORM will require the vendor to provide a quarterly report of all submissions to the SIF for Reimbursement and a report listing any SIF disallowed payments. ORM claims supervisors will review these reports each quarter to reconcile requests and receipts to SIF claims. The ORM Workers Compensation Claims Manager will verify the reconciliation performed by the supervisors.

Karen Jackson is the contact person for this finding.

Sincerely,


J. S. "Bud" Thompson, Jr.
State Risk Director

JST/THA/tha



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

KATHLEEN BABINEAU BLANCO
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February 24, 2006

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot:

Finding: No Internal Audit Function

The Office of Risk Management (ORM) concurs with the finding.

During the past three years, ORM has requested and received reviews from the State Inspector General's Office. Because of organizational changes and the two hurricanes, this was not accomplished in FY 06.

ORM management is exploring the means to establish and fill a resident Internal Auditor position during the next fiscal year.

The contact person for this finding is J. S. "Bud" Thompson, Jr.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. S. Thompson, Jr.", written over a horizontal line.

J. S. "Bud" Thompson, Jr.
State Risk Director

JST/THA/tha