



Dianne E. Ray, CPA  
State Auditor

## MEMORANDUM

**Date:** July 1, 2011

**To:** Members of the Legislative Audit Committee

**From:** Dianne E. Ray, CPA, State Auditor

**Re:** Office of Risk Management Performance Evaluation  
Status Report

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Attached is a summary status report of the progress made by the Department of Personnel and Administration in implementing recommendations from the Office of Risk Management Performance Evaluation presented to the Legislative Audit Committee in September 2010. Out of a total of 19 recommendations (each subpart counted separately), 11 have been implemented, 1 has been partially implemented, and 7 have not been implemented.



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## **AUDIT RECOMMENDATION STATUS REPORT**

**AUDIT NAME:** Office of Risk Management Performance Evaluation

**AUDIT NUMBER:** 2061

**DEPARTMENT/AGENCY/ENTITY:** Department of Personnel & Administration

**DATE:** September 2010

### **SUMMARY INFORMATION**

*Please complete the table below with summary information for all audit recommendations. **For multi-part recommendations, list each part of the recommendation SEPARATELY.** (For example, if Recommendation 1 has three parts, list each part separately in the table.)*

<b>Recommendation Number</b> (e.g., 1a, 1b, 2, etc.)	<b>Agency's Response</b> (i.e., agree, partially agree, disagree)	<b>Original Implementation Date</b> (as listed in the audit report)	<b>Implementation Status</b> (Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)  Please refer to the attached sheet for definitions of each implementation status option.	<b>Revised Implementation Date</b> (Complete only if agency is revising the original implementation date.)
1a.	Agree	December 2010	Implemented	
1b.	Agree	December 2010	Partially Implemented	
2.	Agree	November 2011	Not Implemented	
3a.	Agree	July 2012	Not Implemented	
3b.	Agree	July 2012	Implemented and Ongoing	
3c.	Agree	July 2012	Not Implemented	
3d.	Agree	July 2012	Not Implemented	
3e.	Agree	July 2012	Not Implemented	
3f.	Agree	July 2012	Not Implemented	
4.	Agree	June 2011	Implemented	
5a.	Agree	June 2011	Implemented	
5b.	Agree	June 2011	Implemented	

<b>Recommendation Number</b> (e.g., 1a, 1b, 2, etc.)	<b>Agency's Response</b> (i.e., agree, partially agree, disagree)	<b>Original Implementation Date</b> (as listed in the audit report)	<b>Implementation Status</b> (Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)  Please refer to the attached sheet for definitions of each implementation status option.	<b>Revised Implementation Date</b> (Complete only if agency is revising the original implementation date.)
5c.	Agree	June 2011	Implemented	
6a.	Agree	December 2011	Implemented	
6b.	Agree	December 2011	Implemented	
6c.	Agree	December 2011	Implemented and Ongoing	
7.	Agree	June 2011	Not implemented	12/31/11
8a.	Agree	December 2010	Implemented	
8b.	Agree	December 2010	Implemented	

## **DETAIL OF IMPLEMENTATION STATUS**

**Recommendation #:** 1a. & b.

**Agency Addressed:** Department of Personnel & Administration

**Recommendation Text in Audit Report:**

The Office of Risk Management should ensure that the State is achieving the proper balance between risk retention and transfer to minimize its cost of risk. To accomplish this goal, ORM should:

- a. Evaluate the State's risk retention levels to make sure they are consistent with its risk retention capacity and make adjustments as appropriate.
- b. Conduct a comprehensive review of the State's insurance policies and purchase additional insurance where needed to sufficiently address catastrophic risk.

**Agency's Response** (*i.e., Agree, Partially Agree, or Disagree*): **Agree**

**Agency's Written Response in Audit Report:**

Agree. Implementation Date: December 2010.

The Division of Human Resources, Office of Risk Management has begun evaluating existing risk retention levels and insurance policy coverage limits in existing policies. As a result of the evaluation to date, we have increased coverage limits for workers' compensation, crime, and auto liability. We will continue our evaluation and investigate the availability of a broad excess liability policy once the new broker contract is in place.

**Agency's Current Comments on Implementation Status of Recommendation:**

1a. **Implemented** – The State Office of Risk Management (SORM) worked with the State Insurance Broker, IMA, to evaluate risk retention and transfer levels. Higher limits were purchased for Crime and Automobile Liability policies.

1b. **Partially Implemented** – The SORM worked with the State Insurance Broker, IMA, to review all existing insurance policies. It was determined that a quote for public liability insurance with a large retention should be obtained to analyze whether it was cost effective to limit the liability exposure. Gathering the data to obtain the quote is quite time consuming. The quote has been in the market for about 60 days and we expect a quote by June 30, 2011. As soon as the quote is received, it will be analyzed and a determination made if purchasing a policy appears to be a cost effective manner to finance risk.

**Recommendation #: 2.**

**Agency Addressed:** Department of Personnel & Administration

**Original Recommendation in Audit Report:**

The Office of Risk Management should work with the Department of Personnel & Administration to improve its methodology for allocating property cost of risk by taking into account the loss experience of each department and institution of higher education.

ORM should also use a weighting system that takes into account that the larger departments may have more predictable loss data. To ease the impact of a change in methodology, ORM should develop a transition plan that covers a three to five year period and caps the amount of losses and percentage change used in the calculation.

**Agency's Response** (*i.e., agree, partially agree, disagree*): Agree

**Agency's Written Response in Audit Report:**

Agree, subject to feasibility determination. Implementation Date: November 2011.

The Division of Human Resources, Office of Risk Management will work with our actuary to determine if it is possible to build and implement a model to allocate the property cost of risk to departments based upon a combination of property value, loss experience, and available loss data. If such a model is feasible, the Department will work with the Office of State Planning and Budgeting and the Joint Budget Committee to implement the model.

**Agency's Comments on Implementation Status of Recommendation:**

**Not Implemented** – The SORM's actuary, AON, has all of the data and is currently performing the analysis to determine if it is feasible to build a model to allocate the property cost of risk to departments based on a combination of property value, loss experience, and loss data. If such a model is feasible, the Department will work with the Office of State Planning and Budgeting and the Joint Budget Committee to implement the model.

**Recommendation #:** 3a. through 3f.

**Agency Addressed:** Department of Personnel & Administration

**Original Recommendation in Audit Report:**

The Office of Risk Management should work with the Department of Personnel & Administration to better protect the State's assets from loss and strengthen the State's loss control efforts by:

- a. Engaging departments and institutions to educate executive leadership, managers, appointing authorities, and supervisors on the importance of safety and loss control programs.
- b. Expanding loss control efforts to encompass potential losses in the property and liability areas as well as workers' compensation.
- c. Developing and implementing more effective incentives and accountability measures for loss control efforts by department managers.
- d. Improving the loss control information provided to departments.
- e. Providing more effective oversight for accident investigations, including performing quality reviews on a sample of accident investigations at each department.
- f. Including on staff a person with technical qualifications necessary to provide effective oversight of the State's loss control efforts.

**Agency's Response** (*i.e., agree, partially agree, disagree*): Agree

**Agency's Written Response in Audit Report:**

Agree, subject to feasibility determination, state departmental cooperation and implementation, and obtaining resources. Implementation date: July 2012.

The Division of Human Resources, Office of Risk Management is currently working on expanding its loss control efforts, including liability and property loss control trainings as well as other types of loss control measures in these areas. The Office of Risk Management, in

conjunction with the Department will continue to work with the departments and covered institutions to educate executive leadership, managers, appointing authorities, and supervisors on the importance of safety and loss control programs. Specifically, we will develop and provide accountability and performance measures for the departments and covered institutions to implement. Further, Office of Risk Management will provide reports on performance measures and related outcomes and benchmarking to departments and covered institutions, including Executive Directors and Presidents and risk management coordinators no less than annually. The Department will also evaluate the development of a grant program for loss control efforts in the agencies. The Office of Risk Management will expand the accident investigation training presented to all large departments and will endeavor to review incident reports from departments. However, at this time the Office of Risk Management has no authority to require agencies to submit accident reports for review. Furthermore, resource limitations may limit the extent to which the Office of Risk Management is able to implement these reviews in a comprehensive manner. Finally, the Department will review the feasibility of hiring a staff member with the technical qualifications outlined in the report. While we agree that a person with these qualifications would be a benefit to the State's loss control efforts, we currently do not have the budgetary authority in which to hire such a person.

**Agency's Comments on Implementation Status of Recommendation:**

- 3a. **Not Implemented** – SORM is currently working on communications and procedures regarding safety that is intended to engage agencies and clearly define the importance of workplace safety and loss control programs.
- 3b. **Implemented and ongoing** – SORM has developed additional trainings in the areas of property and liability loss control and will continue to develop additional trainings in this area.
- 3c. **Not Implemented** – SORM is investigating ways to reward agencies for having good loss control programs.
- 3d. **Not Implemented** - SORM is developing agency level reporting and dashboards to include agency experience and exposures.
- 3e. **Not Implemented** – SORM is developing a procedure to review a sample of accident investigations in each agency.
- 3f. **Not Implemented** – At this time, SORM does not have the funding to hire a person to oversee loss control efforts. However, in August 2010, SORM did hire an employee who is currently in a masters' level health and safety degree program.

**Recommendation #: 4.**

**Agency Addressed:** Department of Personnel & Administration

**Original Recommendation in Audit Report:**

The Office of Risk Management should improve its claims processing practices by developing written procedures to guide staff in updating claims notes, coding payment and recovery, estimating reserves, documenting delegation authority, managing litigation costs, and pursuing subrogation rights. Additionally, the STARS information system should support needed procedures with respect to tracking property payments and documenting assessments of liability claims. Finally, more reasonable caseloads should be assigned to the State Risk Manager and the Assistant Claims Manager.

**Agency's Response** (*i.e., agree, partially agree, disagree*): Agree

**Agency's Written Response in Audit Report:**

Agree, subject to system functionality and available resources. Implementation Date: June 2011.

The Division of Human Resources, Office of Risk Management will establish all of the procedures identified in the audit report, some of which are already written. The Department is currently in the Request for Proposal (RFP) process for a Risk Management Information System (RMIS). Once a final decision is made regarding the RMIS, we will determine if the selected system will support tracking of property payments and documenting assessments of liability claims. If not, the Office of Risk Management will investigate the financial feasibility of modifying the system to do so. While we agree that more reasonable caseloads for the Risk Manager and the Assistant Claims Manager would be ideal, the Office of Risk Management has no way of reducing the claims load at this time. The Office of Risk Management does not have any open positions in which to hire additional claims personnel. Also, none of the other staff in the Office of Risk Management has the available time or the background to manage claims. The Office of Risk Management has made some changes to the procedures with the outside adjusters to make them more accountable and make the internal claims load more manageable. The Office of Risk Management will continue to monitor and evaluate the management of caseloads to determine if additional measures can be taken to more effectively manage the workload.



**Agency's Comments on Implementation Status of Recommendation:**

**Implemented** – SORM has developed written procedures for claim entry and updating. The new Risk Management Information System, Origami, supports these procedures and tracking property payments and documenting assessments of liability claims. Caseloads of both the Risk Manager and the Assistant Claims Manager have been reduced through better management of the adjuster contract and training the Technician on management of inmate claims.

**Recommendation #:** 5a. through 5c.

**Agency Addressed:** Department of Personnel & Administration

**Original Recommendation in Audit Report:**

The Office of Risk Management should strengthen controls over claims processing by:

- a. Establishing policies and procedures to ensure segregation of duties is maintained. Additionally, ORM should conduct an audit of the claims processed between September 2009 and April 2010 to ensure payments were approved and paid appropriately.
- b. Amending the settlement authorization form to specify the dollar amount, as well as the title, for each required signor.
- c. Working with the Department of Personnel & Administration to reconcile claims information in STARS with payment information in COFRS on an ongoing basis. The reconciliation process should include recording and reconciling payments, outstanding liabilities, and amounts recoverable from other parties.

**Agency's Response** (*i.e., agree, partially agree, disagree*): Agree

**Agency's Written Response in Audit Report:**

Agree, subject to available resources and system functionality. Implementation Date: June 2011.

The Division of Human Resources, Office of Risk Management will establish procedures ensuring segregation of duties and update the settlement authorization form as identified. The Office of Risk Management will work with the Department Controller to conduct an audit of the claims entered and payments processed between September 2009 and April 2010. Further, the Office of Risk Management will work with the Department Controller to establish a procedure to reconcile the risk management information system (RMIS) claim information with COFRS payment information. The current risk information system, STARS, does not track outstanding liabilities and amounts

receivable from other parties on a claim-by-claim basis. As indicated above, once a new RMIS is selected we will determine if the selected system will facilitate the recommended tracking and determine if additional reconciliation processes are needed.

**Agency's Comments on Implementation Status of Recommendation:**

5a. **Implemented** – Policies and procedures to ensure segregation of duties were written and implemented. An audit of claims processed between September 2009 and April 2010 was conducted. No improper payments were detected.

5b. **Implemented** – The settlement authorization form was amended to specify the dollar amount, as well as the title, for each signor.

5c. **Implemented** – A process has been established to reconcile payments from COFRS to the payments posted in Origami, the replacement system for STARS. Monthly reconciliation will occur beginning June 1, 2011.

**Recommendation #:** 6a. through 6c.

**Agency Addressed:** Department of Personnel & Administration

**Original Recommendation in Audit Report:**

The Office of Risk Management (ORM) should enhance the availability, accuracy, and effectiveness of the information available to guide the State's risk management efforts. Specifically, ORM should take steps to address the deficiencies in the current operation of STARS, to include:

- a. Improving management of workers' compensation claims data by uploading claims notes from the Pinnacol system into STARS. Further, ORM should ensure that reserve take downs are not recorded twice when claims are uploaded from Pinnacol to STARS so that users of COFRS and STARS reports do not have to make additional calculations to determine the remaining amount of a claim reserve.
- b. Establishing greater control over customization of STARS, including department customization of reports and the STARS user interface.
- c. Performing routine system maintenance to clean up discontinued agency files and ensure that STARS reports do not need to be manually adjusted to account for discontinued agencies. Further, ORM should continue to work with the STARS vendor to resolve any system performance problems.

**Agency's Response** (*i.e., agree, partially agree, disagree*): Agree

**Agency's Written Response in Audit Report:**

Agree, subject to system functionality. Implementation Date: December 2011.

The Division of Human Resource, Office of Risk Management has already implemented changes in STARS to address the reserve takedown issue and the system currently calculates claim reserve correctly. Additionally, the Office of Risk Management is currently working to clean up the data associated with discontinued agency files and continues to work with STARS to address performance issues. As earlier noted, the Department is currently in the Request for Proposal (RFP) process for a Risk Management Information System (RMIS). Once a final decision is made regarding the RMIS, we will determine if the selected system will have the ability to bring over the notes from Pinnacol. If not, the Office of Risk Management will investigate the financial feasibility of modifying the system to do so. In addition, the Office of Risk Management will institute procedures to control customization of the newly implemented information system and ensure appropriate system performance levels.

**Agency's Comments on Implementation Status of Recommendation:**

6a. **Implemented** - The notes from Pinnacol are now uploaded into Origami. The takedowns are also correct in Origami.

6b. **Implemented** - During the conversion from STARS to Origami control over customization was established.

6c. **Implemented and Ongoing-** During the conversion from STARS to Origami all discontinued agencies were cleaned up. A process was implemented to clean up the data when agencies are discontinued. SORM will work with Origami to address any system issues that should arise.

**Recommendation #: 7.**

**Agency Addressed:** Department of Personnel & Administration

**Original Recommendation in Audit Report:**

The Office of Risk Management should perform a needs assessment and return on investment analysis to determine if additional STARS applications should be developed and implemented.

**Agency's Response** (*i.e., agree, partially agree, disagree*): Agree

**Agency's Written Response in Audit Report:**

Agree. Implementation Date: June 2011.

Once a final decision is made regarding the Risk Management Information System Request for Proposal, the Office of Risk Management will perform a needs assessment and if appropriate, return on investment analysis, to determine if additional applications should be developed for the new risk management information system.

**Agency's Comments on Implementation Status of Recommendation:**

**Not Implemented** – There were several delays in the purchasing process regarding the RFP for a Risk Management Information System. Origami was only fully implemented on May 1, 2011, therefore SORM has been unable to perform needs assessments and return on investment analysis on additional applications. SORM anticipates that these assessments can be completed by December 31, 2011.

**Recommendation #:** 8a.through 8c.

**Agency Addressed:** Department of Personnel & Administration

**Original Recommendation in Audit Report:**

The Office of Risk Management should ensure that contractors provide information required by contract necessary to support management decisions by:

- a. Requiring that Marsh provide it with a stewardship report annually but no later than March 1. ORM should use the stewardship report and accompanying meeting to verify the status of policy issuance. ORM should also ensure that Marsh provides it with a cost of risk analysis no later than 90 days following the end of each fiscal year.
- b. Requesting that Pinnacol modify its monthly loss prevention reports to indicate loss control services by department and define codes to identify the specific type of services provided.

**Agency's Response** (*i.e., agree, partially agree, disagree*): Agree

**Agency's Written Response in Audit Report:**

Agree. Implementation Date: December 2010.

The Division of Human Resources Office of Risk Management will require the insurance broker to provide a stewardship report no later than March 1 of each year and the cost of risk analysis no later than 90 days following the end of the fiscal year. The Office of Risk Management will use the stewardship report and the accompanying meeting to verify the status of policy issuance. The monthly loss prevention reports from Pinnacol have already been modified as indicated in the audit report.

**Agency's Comments on Implementation Status of Recommendation:**

8a. **Implemented** – The SORM entered into a new contract for an insurance broker. The requirement to provide the stewardship report and cost of risk analysis by specified dates was written into the contract as a performance measure. The stewardship report was provided by March 1, 2011.

8b. **Implemented** – Loss control reports from Pinnacol were modified to indicate loss control services by department and define codes to identify the specific type of services provided.