



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

---

**Department of the Treasury  
Bureau of Risk Management**

July 1, 1998 to October 31, 1999

---

**Richard L. Fair  
State Auditor**

**LEGISLATIVE  
SERVICES COMMISSION**

SENATOR  
DONALD T. DiFRANCESCO  
*Chairman*

ASSEMBLYMAN  
JACK COLLINS  
*Vice-Chairman*

**SENATE**

BYRON M. BAER  
JOHN O. BENNETT  
GERALD CARDINALE  
RICHARD J. CODEY  
ROBERT E. LITTELL  
JOHN A. LYNCH

**GENERAL ASSEMBLY**

JOSEPH CHARLES, JR.  
PAUL DIGAETANO  
JOSEPH V. DORIA, JR.  
NICHOLAS R. FELICE  
NIA H. GILL  
LEONARD LANCE  
LORETTA WEINBERG



# New Jersey State Legislature

## OFFICE OF LEGISLATIVE SERVICES

### OFFICE OF THE STATE AUDITOR

125 SOUTH WARREN STREET  
PO BOX 067  
TRENTON NJ 08625-0067

---

ALBERT PORRONI

*Executive Director*  
(609) 292-4625

RICHARD L. FAIR  
*State Auditor*  
(609) 292-3700  
FAX (609) 633-0834

The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Bureau of Risk Management for the period July 1, 1998 to October 31, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
December 20, 1999

## Table of Contents

	Page
Scope .....	1
Objectives .....	1
Methodology .....	1
Conclusions .....	2
Findings and Recommendations	
Workers' Compensation Claims .....	3
Workers' Compensation Liens .....	4
Workers' Compensation Managed Care Contract ...	5
Computer Systems .....	6
Subrogation Claims Collections .....	7
Internal Control .....	9

---

---

## Department of the Treasury Bureau of Risk Management

### *Scope*

We have completed an audit of Risk Management Interdepartmental Accounts administered by the Department of the Treasury, Bureau of Risk Management for the period July 1, 1998 to October 31, 1999. These accounts are recorded in the state's General Fund.

Total annual expenditures of the agency are \$48 million. The risk management interdepartmental accounts provide insurance premiums for property, casualty and special insurance policies.

The insurance accounts provide self-insurance funds to cover claims for:

- Tort Liability
- Workers' Compensation
- Vehicle Accident
- Foster Parent Program
- Self-Insurance Deductibles

### *Objectives*

The objectives of our audit were to determine whether financial transactions were related to the accounts under review, were reasonable and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

### *Methodology*

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were randomly selected. Other transactions were judgmentally selected.

### *Conclusions*

We found that the financial transactions included in our testing were related to the accounts under review, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and a matter of compliance with laws and regulations meriting management's attention.

We also found that the agency has resolved the significant issues noted in our prior report except for the matter pertaining to the maintenance of a mail log. This finding has been updated and restated in this report.

---

## Workers' Compensation Claims

**E**mployees' wages should be verified to substantiate eligibility for workers' compensation benefits.

The workers' compensation program (N.J.S.A. 34:15-1 et seq.) provides medical treatment and temporary compensation to workers injured on the job. Employees generally receive 70 percent of their salary up to a maximum based on the state's average weekly wage. An injured employee would not be eligible for compensation payments if they continued to be paid by their employing agency or if they were otherwise working. Workers' compensation expenditures totaled \$35 million during fiscal year 1999.

The Bureau of Risk Management does not verify whether or not a claimant was receiving wages while collecting temporary compensation. Our review of claims disclosed one claimant who received \$36,680 in temporary compensation over a two-year period while working and earning approximately \$26,000 annually. Three other claimants received overpayments totaling more than \$16,000 because the employing state agency allowed them to exhaust their leave time balances without notifying the bureau.

The bureau presently does not have access to either the Department of Labor's Wage Reporting System, or the Department of the Treasury's Master Payroll history files. These systems would enable the bureau to ascertain whether a claimant received any wages while collecting workers' compensation benefits and thus identify any overpayments and/or possible fraud cases. In addition, the bureau should have online access to the Department of Personnel's Personnel Management Information System to verify the continued eligibility of the claimant.

### *Recommendation*

We recommend that the bureau contact the above noted departments for the purpose of obtaining access to their respective databases. These databases should be accessed and cross matched with compensation benefits paid to identify overpayments or possible instances of fraud.

### *Auditee's Response*

The Bureau agrees that access to the identified databases would permit investigators to identify possible

overpayments or potential employee fraud. Recent improvements in Bureau technology should support the implementation of this recommendation. Implementation will be dependent on IT requirements however, the Bureau will contact both Departments and immediately pursue this recommendation.



### **Workers' Compensation Liens**

**Third party recoveries of workers' compensation benefits should be sufficiently documented.**

Workers' compensation benefits are awarded regardless of negligence or fault by any party. In some instances, however, a third party may be liable to the employee or his dependents for an injury or death. In the event the employee or his dependents recover damages from a third party the state would be entitled to recover a portion of the benefits paid. Recovery of these funds is accomplished through the establishment of a workers' compensation lien. N.J.S.A. 34:15-40 limits the amount recoverable to a maximum of two-thirds the gross lien amount.

Documentation of third party settlements along with associated legal expenses was not obtained for 12 of the 22 cases reviewed. The propriety of recovery amounts cannot be substantiated by agency personnel without this information.

Nine of the 22 cases reviewed involved compromises between the employee's attorney and the state. In seven of these cases the amount of the final settlement and justification for the compromise was not sufficiently documented. The state received \$68,000 less than the maximum provided by law.

#### ***Recommendation***

We recommend that the bureau obtain sufficient documentation to support third party settlements.

#### ***Auditee's Response***

While the maximum recovery on a third party settlement is set by statute, the final recovered amount is usually negotiated based on a number of factors. In the future, all factors considered will be noted in each file where there is a negotiated settlement. The Bureau is designing a form that incorporates factors considered

---

by appropriate authorities in negotiating the settlements. This practice will be implemented immediately and will be fully operational within 30 days.



## **Workers' Compensation Managed Care Contract**

**The managed care contract should be monitored and reviewed to ensure that contract specifications and requirements are met.**

Since 1996 the bureau has contracted with a provider to manage and process medical bills associated with workers' compensation claims. The provider is responsible for determining medical care needs and ensuring that costs are reasonable. The provider receives an administrative fee for each claim processed. During fiscal year 1999 the provider received \$1.5 million in administrative fees. Over 500 claims a month are processed. The bureau relies on the provider to provide a monthly listing of claims forwarded to them to support the amount of fees billed. Management indicated that about ten percent of the claims on the list are reviewed by management to ensure that they are valid. A more efficient way would be to use the bureau's own computer system to substantiate the number of claims sent to the provider. The system could also be utilized to identify any duplicate claims based on the employee's social security number and date of accident. At a minimum, the bureau should maintain a daily log of claims forwarded to the provider for comparison with the number billed.

The provider guaranteed that they would reduce average medical costs by a minimum of 30 percent through its medical management, utilization review and provider networks. The provider was willing to risk 50 percent of their profit each year if this goal was not reached. There has been no independent verification of the provider's reported cost savings of 38 percent.

The Request for Proposal stipulated that the state intended to include mutually-acceptable financial and account service standards as part of the contract. These performance standards have not been developed.



---

***Recommendation***

We recommend that the bureau implement procedures to provide for the monitoring and review of significant contract provisions. Furthermore, the bureau should develop acceptable performance standards for any future contracts.

***Auditee's Response***

The Bureau will initiate steps to ensure that the provider's monthly listing of claims is reviewed to ensure its validity and verify the provider's reported cost savings of 38 percent. This practice will be implemented immediately.

In addition, the Division of Purchase and Property's Contract Compliance and Administration Unit will be asked to develop an empirical method of monitoring and reviewing the provider's performance including the development of acceptable performance standards for future contracts. The Bureau expects implementation of this initiative within 90 days.

»»<<«

## **Computer Systems**

**M**anually prepared checks are not entered into RMIS.

The Risk Management Information System (RMIS) is not equipped to handle manually prepared checks which are entered directly in NJCFS by a workers' compensation payment section employee. This employee can initiate the transaction and apply all four levels of approval which will generate a check to the claimant. These transactions are not approved on-line by a supervisor. When notified of this weakness the bureau took appropriate action to limit this employee's ability to generate and approve manual checks.

During fiscal year 1999, 120 manual checks totaling \$400,000 were processed. These transactions were not entered on RMIS. There is an increased risk of duplicate payment or a misappropriation of funds. We noted two instances where manual checks resulted in duplicate payments totaling \$15,000.

**The subrogation unit's computer system is inadequate and is not linked to RMIS.**

Furthermore, since these items are not on RMIS, these payments may not be included in the workers' compensation liens for cases involving third party recoveries.

The subrogation unit's computer system is contained on a personal computer and is completely independent of the bureau's RMIS. As a result, claim expenditures must be keyed into the computer each time a workers' compensation lien is established.

Due to deficiencies in the system unit employees are unable to generate an accounts receivable report of workers' compensation liens and other third party claims identifying such key information as the gross claim amount, amount recovered and whether a claim is open or closed. They cannot even produce a screen print of individual claims.

#### *Recommendation*

We recommend that the bureau upgrade their personal computer and related software and link it to RMIS.

#### *Auditee's Response*

The Bureau acknowledges the deficiency of the stand-alone system for subrogation and has included the identified upgrades in its IT budget. Once funding has been approved, the recommended improvements will be immediately undertaken. Estimated time for completion could be up to six months.



### **Subrogation Claims Collections**

**Additional collection efforts covering subrogation claims should be undertaken.**

The bureau's subrogation unit is responsible for the administration and recovery of claims on behalf of the state against others responsible for damages to the state, its employees and property. During our review period, the subrogation unit processed more than 1000 claims totaling over \$1 million.

The monthly report prepared manually by the subrogation unit for May 1999 indicated that there were 2253 open claims. Of this amount, 1736 (77 percent) have been open for over a year. Due to system deficiencies,

---

the subrogation unit was unable to provide us with a list of open claims and related dollar amounts.

Out of 73 closed cases reviewed, 12 cases totaling \$11,500 in damages were closed without payment. In some instances these cases were closed for lack of a current mailing address. In two instances we obtained different addresses through the INTERNET.

Uncollected cases involving damages in excess of \$1000 are forwarded to the Department of Law and Public Safety, Division of Law for collection. Claims under \$1000 deemed uncollectible are closed. These cases should be forwarded to the Department of the Treasury, Division of Revenue for possible collection through the Set-off of Individual Liability (SOIL) program. Under the SOIL program any state income tax or homestead rebate would be withheld and remitted to the bureau. Additionally, the bureau could possibly ascertain an individual's employer from the Department of Labor's wage reporting system and perhaps obtain a wage garnishment.

### ***Recommendation***

We recommend that computer enhancements be undertaken to provide management with sufficient and complete information regarding subrogation claims and improve the overall effectiveness of collections. Furthermore, management should consider obtaining wage garnishments against individuals who neglect to reimburse the Bureau of Risk Management for damages. At a minimum, uncollected recoveries should be forwarded to the Division of Revenue for inclusion in the SOIL program.

### ***Auditee's Response***

The Bureau agrees with the importance of having accurate information regarding subrogation claims and has included the recommended enhancements in its IT budget. These enhancements will be included in the timetable for the Subrogation Computer Upgrade.

The Bureau supports maximizing recoveries for the subrogation program. Effective immediately, we will begin to pursue wage garnishments and forward all uncollectible recoveries to the SOIL program. This program will be fully operational within 30 days.

»»<<««

---

## Internal Control

**The implementation of stronger internal control over receipts would reduce the risk of loss or misuse of funds.**

In our prior audit we noted that controls over the processing of workers' compensation refunds were inadequate. Checks were not posted in a mail log nor reconciled with the New Jersey Comprehensive Financial System (NJCFS). Additionally, receipts were not deposited in a timely manner in accordance with Treasury Circular Letter 94-24.

Workers' Compensation refunds were less than \$165,000 during our audit period. Currently the bureau maintains a check log for workers' compensation refunds. However, it is incomplete and therefore not reconciled with NJCFS. Eighty-seven of 109 items reviewed could not be traced back to the check log. The recording of receipts and periodic reconciliations are necessary to ensure that checks are properly deposited. Furthermore, receipts still are not deposited in a timely manner. Seven out of 28 checks on hand May 19, 1999 had been held between 11 and 114 days.

Recoveries from insurance companies and individuals processed by the bureau's subrogation unit amounted to approximately \$1.3 million during our audit period. These recoveries were not posted to a mail log nor reconciled with NJCFS. Also, there is a lack of segregation of duties within this unit. The person responsible for billings and collections also receives the checks, makes the deposit and records the receipt. As a result, errors or irregularities may go undetected.

Funds collected by the subrogation unit were also not deposited timely. Out of 64 receipts tested 17 were not deposited timely. We were unable to determine if 36 deposits were deposited timely since the documentation was not date stamped. Deposits were usually made once a week.

### ***Recommendation***

We repeat our recommendation that the bureau establish procedures to assure that receipts are adequately controlled and recorded in the state accounting system. Procedures should provide for the maintenance of a mail log, a proper segregation of duties, periodic

reconciliations, and compliance with Treasury circular letter requirements.

***Auditee's Response***

The Bureau recognizes the identified weaknesses in its internal controls for the receipt of returned checks and subrogation recoveries. We will immediately begin a process to have the flow of funds reviewed and will create policies and procedures that incorporate prudent control measures. This will be completed in 30 days.

It is our plan to follow the processes involved to remedy the identified deficiencies and to monitor the corrective action taken to date.

»»»<<<