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An Audit Report on

Performance Measures at the State Office of Risk Management

November 2007

Report No. 08-013



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Overall Conclusion

The State Office of Risk Management (Office) reported reliable results for all four of the key performance measures audited for fiscal year 2006 and the first three quarters of fiscal year 2007. A performance measure result is considered reliable if it is certified or certified with qualification.

Specifically:

- Three key performance measures—Cost of Workers' Compensation Per Covered State Employee, Incident Rate of Injuries and Illnesses Per 100 Covered Full-time State Employees, and Average Cost to Administer a Claim—were certified with qualification because the Office's written policies and procedures for performance measure calculation and review of results entered into ABEST were inadequate.
- One key performance measure—Number of Written Risk Management Program Reviews Conducted—was certified with qualification because the Office does not have written policies and procedures for the calculation of this performance measure and for the review of results it enters into ABEST.

Table 1 on the following page summarizes the certification results for the four key performance measures tested.

State Office of Risk Management

The State Office of Risk Management (Office) administers the government employee workers' compensation insurance program and state risk management programs.

The Office directs its efforts toward implementing risk-based approaches for identifying exposures and emphasizing mitigating strategies intended to reduce financial and performance losses at client agencies.

Texas Labor Code, Section 412.0111, specifies that the Office is "administratively attached" to the Office of the Attorney General (OAG).

The OAG provides administrative support for the following functions:

- Information technology.
- Human resources.
- Purchasing.
- Accounting.

Sources: *Agency Strategic Plan for the Fiscal Years 2007-11 Period*, State Office of Risk Management, July 7, 2006; Texas Labor Code, Section 412.0111; and interviews with Office staff.

Background Information

Entities report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

Table 1

State Office of Risk Management (Agency No. 479)			
Related Objective or Strategy, Classification, and Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results
A, Outcome, Cost of Workers' Compensation Per Covered State Employee	2006	\$292.62	Certified with qualification
A, Outcome, Incident Rate of Injuries and Illnesses Per 100 Covered Full-time State Employees	2006	3.80%	Certified with qualification
A.1.1, Output, Number of Written Risk Management Program Reviews Conducted	2006 2007 (first 3 quarters)	32 22	Certified with qualification
A.2.1, Efficiency, Average Cost to Administer a Claim	2006 2007 (first 3 quarters)	\$490.00 \$482.00	Certified with qualification
<p>A measure is Certified if reported performance is within +/-5 percent of actual performance and if controls appear adequate to ensure accuracy for collecting and reporting performance data.</p> <p>A measure is Certified With Qualification if reported performance is within +/-5 percent of actual performance but controls over data collection and reporting are not adequate to ensure continued accuracy.</p> <p>A measure is Inaccurate when reported performance is not within +/-5 percent of actual performance or there are more than two errors in the sample tested.</p> <p>Factors Prevent Certification when actual performance cannot be determined because of insufficient documentation and inadequate controls or when there is deviation from the measure definition and the auditor cannot determine the correct result.</p>			

Summary of Management's Response

The Office agreed with the recommendations in this report, and its responses are in Appendix 2.

Summary of Information Technology Review

The Office uses the Claims Management System (CMS) to collect performance measure data. The Office and the Office of the Attorney General (OAG) share responsibility for maintaining general controls and application controls for CMS. For example, the Office and OAG share maintenance of logical access and program change controls. Specifically:

- OAG grants access to CMS for new employees at the request of the Office. The Office assigns the various levels and types of access.
- The Office employs a programmer who makes and tests changes for CMS. OAG moves these changes into the production environment.

The OAG is also responsible for the physical security of the mainframe and servers on which CMS resides, maintains the business continuity plan that covers CMS, and developed the *CMS User Manual* (May 1997).

Auditors reviewed logical access controls over CMS to follow up on an issue noted in a previous audit report regarding these controls (*An Audit Report on Expenditures at the State Office of Risk Management*, State Auditor's Office Report No. 06-043, June 2006). Logical access controls over CMS are sufficient to ensure the timely removal of terminated employees' access to the system. The Office and the OAG developed an automated process to remove terminated employees' access to CMS. Testing showed that no terminated Office employees retained access to the system.

Summary of Objectives, Scope, and Methodology

The audit objectives were to:

- Determine whether the Office is accurately reporting the selected performance measures to ABEST.
- Determine whether the Office has adequate control systems in place over the collection, calculation, and reporting of the selected performance measures.

The scope of this audit included four key measures the Commission reported for fiscal year 2006 and the first three quarters of fiscal year 2007. Auditors also reviewed controls over the submission of data used in reporting performance measures and traced performance information to the original source documentation when available.

The audit methodology included selecting key measures to audit, testing results for accuracy and conformity with measure definitions, and evaluating controls over performance measure procedures and logical access to associated information systems.

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Detailed Results

Chapter 1

The Office Should Improve Its Policies and Procedures for Performance Measures

For all four performance measures tested, the State Office of Risk Management (Office) does not adequately document its review of the data that it enters into the Automated Budget and Evaluation System of Texas (ABEST) before it releases the data into ABEST.

In addition, the Office does not have formal policies and procedures for reviewing performance measure data it enters into ABEST.

Recommendations

The Office should:

- Develop formal policies and procedures for performance measure reporting that require documented reviews of the entry of performance measure results into ABEST.
- Complete documented reviews of ABEST data entry and retain this documentation.

Key Measures

Cost of Workers' Compensation Per Covered State Employee

Incident Rate of Injuries and Illnesses Per 100 Covered Full-time State Employees

Average Cost to Administer a Claim

Certified with Qualification

A measure is certified with qualification if reported performance is within +/-5 percent of actual performance but controls over data collection and reporting are not adequate to ensure continued accuracy.

These performance measures were accurate, but they were certified with qualification because the Office's written policies and procedures for these measures do not contain detailed instructions sufficient to ensure continued accuracy. These policies and procedures are informal, undated, and do not include specific information that would allow an individual unfamiliar with the process to accurately re-create the results. For example:

- The policies and procedures for Average Cost to Administer a Claim did not include instructions for estimating payroll

expenses for fiscal year 2007.

- The policies and procedures for Incident Rate of Injuries and Illnesses Per 100 Covered Full-time State Employees did not include instructions for running the queries used to determine (1) the number of injury and illness claims accepted and (2) the number of full-time equivalent employees with workers' compensation coverage through the Office.

Recommendation

The Office should develop formal, detailed policies and procedures that fully describe the methodology used to collect performance measure data and calculate measure results.

Number of Written Risk Management Program Reviews Conducted

This performance measure was accurate, but it was certified with qualification because the Office does not have written policies and procedures for collecting and calculating this performance measure. Furthermore, the Office reviews the final count of Risk Management Program Reviews (Program Reviews) before entry of performance measure results into ABEST, but it does not review the calculation and summary documents for this measure.

The Office reviewed and evaluated all 32 Program Reviews it reported in ABEST in fiscal year 2006 and all 22 Program Reviews it reported in ABEST for the first three quarters of fiscal year 2007. However, because of a timing issue, there was a 4.76 percent variance between the results the Office reported for fiscal year 2007 and the results auditors re-calculated. According to the performance measure definition, Program Reviews should be recorded in ABEST after they are certified. In addition, Office staff responsible for this performance measure and Legislative Budget Board staff asserted that Program Reviews are considered certified after they are completed. However, the Office entered Program Reviews into ABEST according to the visit date, not according to the completion date.

Recommendations

The Office should:

- Clarify the measure definition to ensure that it enters only certified Program Reviews into ABEST.
- Develop and implement written policies and procedures for the collection of data for and the calculation of this measure.

- Implement documented reviews of summary documents and re-calculate the number of Program Reviews before entering data into ABEST.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the State Office of Risk Management (Office) is accurately reporting the selected performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Determine whether the Office has adequate control systems in place over the collection, calculation, and reporting of the selected performance measures.

Scope

The scope of this audit included four key measures the Commission reported for fiscal year 2006 and the first three quarters of fiscal year 2007. Auditors also reviewed controls over the submission of data used in reporting performance measures and traced performance information to the original source documentation when available.

Methodology

The audit methodology included selecting key measures to audit, testing results for accuracy and conformity with measure definitions, and evaluating controls over performance measure procedures.

Auditors selected four key measures reported in ABEST. The Office completed questionnaires related to its performance measurement processes to help identify preliminary control information.

Specific tests and procedures included:

- Auditing calculations for accuracy and to ensure that they were consistent with the methodology on which the Office and the Legislative Budget Board agreed.
- Testing a sample of source documents to verify the accuracy of reported performance.

Project Information

Audit fieldwork was conducted from September 2007 through October 2007. 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.

The following members of the State Auditor's staff performed the audit:

- Mary Goldwater (Project Manager)
- Thomas Howe, Jr., MPAff, CGAP
- Melissa Dozier
- Letty Mendiola, MPA
- Leslie Ashton, CPA (Quality Control Reviewer)
- Kelly Furgeson Linder, MSCRP, CGAP (Audit Manager)

Management's Response



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November 13, 2007

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Mr. John Keel,
The State Auditor of Texas
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Dear Mr. Keel,

We have had an opportunity to fully review the draft of the report on performance measures at the State Office of Risk Management (Office). I thank you and your staff for their time spent learning about the Office and identifying opportunities for improvement in our processes and procedures. We appreciate the professionalism and expertise demonstrated by your staff during the audit.

The Office agrees with each of the recommendations in the draft report. The Division Director for the division responsible for performing the function(s) will be responsible for implementing the recommended actions before the end of the current fiscal year.

My thanks again to you and your staff for an audit with solid recommendations, conducted in a professional manner. We look forward to receiving the final report and to implementing the recommendations of the audit team.

Respectfully,

Jonathan D. Bow
Executive Director
State Office of Risk Management

CC: Kelly Linder, SAO
Mary Goldwater, SAO

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Recent State Auditor's Office Work

Recent SAO Work		
Number	Product Name	Release Date
06-043	An Audit Report on Expenditures at the State Office of Risk Management	June 2006

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The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

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State Office of Risk Management

Mr. Jonathan D. Bow, Executive Director



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