

NEVADA SYSTEM OF HIGHER EDUCATION
UNIVERSITY OF NEVADA, LAS VEGAS
RISK MANAGEMENT/WORKER'S COMPENSATION
Internal Audit Report
January 1, 2009 through April 30, 2010

GENERAL OVERVIEW

The Nevada System of Higher Education (NSHE) risk management/worker's compensation function is a self-insured program. As such, each campus contributes a percentage of the first \$36,000 earned by employees to the fund. The NSHE Risk Management Office is responsible for overseeing the fund and distributing monies back to the campuses based on institutional budget requests submitted to NSHE at the beginning of each fiscal year. These distributions, as well as the expenditures that are paid from the funds, are monitored by the campuses through accounts established in the financial accounting system. The University of Nevada, Las Vegas (UNLV) Department of Risk Management and Safety (RM&S) has three accounts that are used for this purpose. The accounts are entitled "Radiation Safety", "OSHA and Fire Safety", and "Risk Management and Safety".

SCOPE OF AUDIT

The Internal Audit Department has completed a review of the UNLV RM&S for the period of January 1, 2009 to April 30, 2010.

The scope of our review included tests of the accounting records and other auditing procedures, as we considered necessary. The tests included, but were not necessarily limited to these areas.

1. Reviewing expenditures paid from the three RM&S accounts to determine whether the transactions were for related activities. This included an examination of employees paid from the accounts to ensure their job duties were relevant.
2. Reviewing the three RM&S accounts to ensure the balance of funds is not excessive.

The following recommendations should be implemented to improve the process in which risk management/worker's compensation funds are spent.

EXPENDITURES

The Internal Audit Department generated a report of transactions that were charged to the three RM&S accounts during the audit period. A sample of 34 transactions was selected to determine whether funds were being spent for RM&S related activities. The following exceptions were noted.

1. Seven of the transactions were not related to the RM&S function, as described below.
 - a. Two transactions involved an "administrative overhead assessment" that was charged to a RM&S account. The assessment is performed on a quarterly basis by the university and is calculated by taking 3.5% of the revenue that is recorded in self-supporting accounts. The total of the two transactions tested totaled \$41,254.
 - b. One expenditure was payment of legal expenses associated with establishing employment-based, permanent residency for a RM&S employee.
 - c. One expenditure was the purchase of an airline ticket in accordance with a termination agreement negotiated with a RM&S employee. This was the same employee as mentioned in item 1b above.

- d. One expenditure was payment to a newly hired RM&S employee for moving expenses. The payment was equal to one month of the employee's salary.
- e. One expenditure was payment of a catered lunch provided at a RM&S Department staff meeting.

As indicated in the “Other” section of this report, current NSHE policy does not provide adequate guidance that describes the manner in which worker’s compensation distributions should be spent by the campuses. In our view, however, the above expenditures would not be considered an appropriate use of these funds. For items 1a through 1e above, we recommend that worker’s compensation funds be used for goods and services that relate to the university’s RM&S function. We recommend the above charges be reversed from RM&S accounts.

Institution Response

We have been following the audits of other NSHE RM&S programs and so understand that a comment like this would be likely. We agree that NSHE policy does not provide adequate guidance; however, we disagree that these expenditures are not appropriate uses of these funds, and we have provided some specific responses below to support our position.

Explanation

The NSHE Procedures and Guidelines Manual, Chapter 10, establishes goals of risk management programs within NSHE. We have thoroughly reviewed this document and are unable to determine why the expenditures noted are out of compliance. When asked, the auditor informed us that there is no specific guidance, but that it is common knowledge that expenditures must benefit the RM&S program. In his opinion, the expenditures noted did not benefit the RM&S program. We disagree with this opinion for most of the questioned expenditures and offer the following explanation of the five items noted.

Item 1a identifies an administrative overhead assessment charge made by the University to each self-supporting department. The Risk Management Department, like other self-supporting entities, is assessed a fee that covers a portion of the cost of administrative services that are provided to all campus programs so that we do not end up subsidizing

them with State funds. This includes Purchasing, Accounting, Human Resources, payroll, Public Safety, NSHE System Office assessments, and other central services. These are legitimate operating expenses of the University and the fee charged to each department assesses the users of these services an appropriate fee for their usage of the services, and in many ways are similar to the overhead assessments given to NSHE campuses to support System office functions. In fact, this is the source of the funds that UNLV uses to pay the annual System Office assessment.

Items 1b, 1c, and 1d are directly related to the employment and termination of a Radiation Safety Officer (RSO). This is a position mandated by the Nuclear Regulatory Commission. Without this position, UNLV could not conduct radiological research. As such, this position is vital to the integrity of the Risk Management & Safety function of the University.

The RSO position became vacant upon the sudden death of the previous RSO in May, 2007. We conducted a search to fill the position, but at the time unemployment was low and market conditions did not favor our finding a qualified individual to fill the position. After nine months we were only able to find a single candidate qualified to fill the position and willing to accept the below-market pay that we offered. Without a qualified individual to fill this position, UNLV was in danger of losing the ability to continue our radiological research. We offered the additional incentive of a month's salary to bring the individual to UNLV. This was a common practice during that time period (2007) and is in compliance with established policy.

The individual who accepted the position was a foreign national. Six months after arriving at UNLV (June, 2008), he decided that he wanted to apply for his green card. In order to comply with federal policy, we were required to re-open the search and determine if there were any qualified US citizens available to fill the position. In November, 2008, we began a new search. The search was closed in March, 2009. On this second search, a qualified US citizen accepted the position for the salary offered. Under federal guidelines, we had to hire the US citizen and terminate the foreign national. We were advised by our Office of International Students and Scholars that to complete the termination process for the foreign national, we were required to pay the costs of a return ticket to his home country and the legal costs of the attempt to obtain his green card.

All of the expenses we incurred regarding this employee are in compliance with current employment policy of NSHE and UNLV. As such, these expenditures are appropriate and to the benefit of the Risk Management & Safety function at UNLV.

The final item consists of a catered meal provided for the department's annual holiday party. During their lunch hour the RM&S staff (33 members) held a holiday party in our training room. A portion of the food was catered by the UNLV food vendor while many other items were supplied by the staff members. The total cost of food provided by the UNLV food vendor was \$431.62. In preparation for the event, we obtained all appropriate levels of approval for a host function. Until the recording of the event in our financial records, we followed all existing policy requirements. However, the event was not properly

charged to a hosting account. We have reimbursed the RM&S accounts for the cost of this activity using unrestricted funds from other sources.

We feel these are very legitimate expenditures in support of the program, and not only are they not inconsistent with any existing policy, they specifically follow System and campus policies.

Prevention & Monitoring

Hosting activity is rare within this department, and the department was unaware of the need for hosting activity to be performed through an approved hosting account. The Executive Director of Risk Management and Safety will ensure that all future hosting activity is properly recorded in an approved hosting account. As noted above, we have reversed these expenditures from the RM&S account.

FOLLOW-UP RESPONSE:

No hosting activity has occurred since the time of the initial responses. However, the processes are in place to ensure that all activity will be properly charged to a hosting account.

We respectfully request that this item be closed.

2. Five transactions were charged to the incorrect expense category. One expenditure, for the catered lunch mentioned in item 1e above, was not charged as a hosting expense. In addition, the RM&S account to which the expense was charged was not authorized for hosting activity. Two expenditures involved computer purchases that were charged as office supplies. One expenditure for the purchase of 55 gallon drums was charged as a laundry/dry cleaning expense. The final expenditure involved a purchase of equipment that was charged to lab supplies. We were subsequently notified that although this transaction was not charged to the equipment expense category, it was properly entered into the university's equipment inventory system.

We recommend that greater care be taken to ensure expenditures are posted to the proper expense category and that host expenditures are charged to authorized accounts.

Institution Response

We agree with this recommendation.

Correction

The error was in the sub-categorization of the expenses for four of the five items. The fifth item should have been categorized as hosting. Written notes have been placed with the documents indicating the appropriate categorization.

Prevention & Monitoring

The categorization and entry of data had been performed by as many as five different individuals, due to cross-training of duties. In order to reduce the level of errors, we have centralized the process. Our Program Officer is now the only individual categorizing and entering documents. This individual has received adequate training in categorizing expenditures.

We respectfully request that this item be closed.

FOLLOW-UP RESPONSE:

This recommendation was fully implemented at the time of the initial responses.

WORKER'S COMPENSATION ASSESSMENT

During a review of expenditure transactions, we noted two occasions in which funds were transferred into an RM&S account from an account entitled, "Worker's Compensation Clearing". The clearing account was funded by assessing a percentage of the payroll charged to UNLV's unrestricted accounts. The university decided to perform the assessment during the 2008-2009 fiscal year when the State of Nevada stopped funding the worker's compensation fringe benefit due to budget constraints. The total amount of funds that was collected from the assessment was \$467,344, \$78,587 of which was transferred to the RM&S account.

The worker's compensation assessment should be applied through the System's payroll application based on employee earnings codes and established salary limitations. This will ensure the funds are collected in a consistent manner from each NSHE institution and against all account types. We recommend university administration reverse the charges from the

assessment that was performed in 2008-2009, as described above. We also recommend that future assessments of this nature not be performed.

Institution Response

We disagree with this recommendation and would like to offer our comments relative to the specifics regarding this transaction.

Explanation:

The integrity of the risk management function is essential to the University. NSHE has recognized the importance of this function by dedicating an entire chapter of the NSHE Procedures and Guidelines Manual to this function. The Risk Management & Safety function is supported through multiple sources, including direct State assistance from the campus, direct non-State support from the campus, and additional funding from the System from revenue collected via an assessment for workers' compensation. We use all these sources in order to support the requirements of the campus RM&S program.

In order to fully understand the transaction noted above it is important to understand the details of legislative action that led to a retroactive elimination of the workers' compensation assessment for all of FY09. AB 2, section 4.4 of the 25th Special Session was passed in December, 2008. The bill retroactively reduced the NSHE legislatively approved worker's compensation rate to zero for FY09, with a corresponding rescission of the State appropriated dollars. Similar actions were taken for all other State agencies. The State's actions were not based upon an expected elimination of expenses for workers' compensation/ Risk Management activities, but were part of an emergency response to identify any/all one-time funds in order to cover the State's operating deficits on a very short-term basis. This practice has been common over the past few years. The actions do not accomplish an actual reduction in liability and/or operating cost; the result of these reductions is only to defer a future potential liability.

The new model for funding of risk management programs by NSHE proposes the utilization of a 5-year claim loss average. It is probable that claim costs will continue to rise and exceed the 5-year average due to double-digit inflation in medical costs and drugs, putting financial pressure on UNLV to identify funding to support these costs. Given the significant accumulation of financial cuts and with the projection of more to come, we believe it is prudent for UNLV to help offset near future liabilities and budget reductions by capturing and retaining all appropriate revenue. We believe our current RM&S program is funded at a minimum level in order to meet external (county, State and federal) requirements, and we do not see options to further reduce it and still maintain a viable program to support the instructional and research activities of UNLV. A major part of the financial planning for UNLV over the recent past has assumed the need for some bridge funding in order to weather the existing and, projected near-future, financial challenges.

Also in December, 2008, the System Office decided to stop FY09 collections through the payroll system and to operate the program from reserves, consistent with the legislative action to take back the State funding workers' compensation dollars. This determination was made retroactively to the beginning of FY09 (July 1, 2008). When the funds were returned to us by NSHE, we in turn returned all of the funds to the departments from which they were collected.

We recognized that the retroactive elimination of workers' compensation revenue for FY09 by the State was an emergency response to a financial shortfall, but that it would create future budgetary challenges for mandatory RUM&S activities. Therefore, an internal assessment for workers' compensation was processed in April 2009 to establish some bridge funding, recognizing that the unrestricted self-supporting accounts had already budgeted for this activity for that fiscal year. This is the \$467,344 described by the auditor. The April date was much later than originally planned and scheduled, but was still well prior to year end. It is important to reiterate that this one-time internal collection was only from unrestricted non-State accounts and restricted for use to support RM&S/ Workers' Compensation activities, and was done in the likely event that additional major budget challenges were to be faced. UNLV could have captured the equivalent amount of money from these accounts through a number of other internal assessments, but we just took the funding that was already budgeted by these unrestricted self-supporting accounts.

We wish to emphasize that these funds have been placed into a separate holding account and may be used only for risk management and safety activities. It is also important to understand that this action helps assure we do not have to use State funds in the future to backfill for these vital campus activities. During these past few years the State budget reductions have been very significant, but in general the campus self-supporting programs have not faced the same level of financial challenge. In fact, the stoppage of all salary and benefit increases (COLA, merit, etc.) have generally benefitted the financial activities of these self-supporting programs, as they would have to absorb the salary and benefit increases from their own operations. Additionally, the implementation of the unpaid leave/furlough program (4.6% of salary) is actually a savings to the self-supporting accounts, as the State did not capture/eliminate these funds as part of the previous budget reductions (as was done for all State accounts). In planning for the current and near-future financial challenges, UNLV has looked at how the self-supporting activities can play a role, and we have not just focused on State funded activities. Retaining workers' compensation/Risk Management funding from these self-supporting functions allows the campus to help avoid more pressure on the State budgets in the near future, and is an important contingency plan given the dire financial projections for the FY12/FY13 budget.

Our assumption is that FY12 and FY13 will present even larger financial risk to UNLV, and perhaps to the State overall. In the interests of prudent financial activity, we have recognized that we will need some bridge funding to maintain critical services through the next biennium, until there is a more fiscally stable financial base for the State. Further, NSHE has advised us that there is the possibility that University funds will be needed for a potential shortfall of available System funds to support the workers' compensation/ risk management and safety programs. This accentuates the need for building a reserve of

funds. In order to achieve this, the System is allowing us to build and carry over funds that we have saved against future assessments and departmental needs.

There is certainly precedent for collecting Worker's Compensation funds and holding them in reserve. For example, NSHE has been collecting funds through the worker's compensation assessment for several years, and recently determined that a higher priority for the usage of those funds would be in support of the iNtegrate project. NSHE's redirection of \$6 million dollars to support iNtegrate included assessments to restricted accounts, including federal grants and contracts. Our funds, by contrast, have not been diverted to any activity not directly related to RM&S, were from unrestricted self-supporting accounts only, and are focused on helping us get through the next several years, until the Nevada economy rebounds.

FOLLOW-UP RESPONSE:

We maintain that our position is accurate and is supported by the recent changes to the NSHE Procedures Manual.

We respectfully request that this item be closed.

OTHER

The following issues were noted during this review; however, it is not the responsibility of the UNLV RM&S Office.

WORKERS COMPENSATION POLICY

The System's risk management/worker's compensation policy is contained in the NSHE Procedures and Guidelines Manual. We reviewed the policy and noted the following observations.

1. The policy does not address the worker's compensation component of the program.
2. The policy does not address how the funds allocated to the campuses should be spent and whether the funds can be used for operating type expenditures incurred by the institutional offices that administer them. For example, of the 34 expenditures reviewed

from RM&S Office accounts, four were for office computers or related equipment, one was for membership dues paid to professional organizations, one was for drinking water, and one was for cellular telephone charges. Although it could be reasoned that such expenditures are reasonable and should be allowed, guidance should be provided in the policy.

We recommend the NSHE Finance Department and the institutional Business Officers develop general policies that address these areas. In developing the spending policy, we recommend a determination be made as to whether a portion of the funds allocated to the campuses can be used to support the offices that administer the funds, as mentioned above, or whether the funds can only be used for expenses directly related to the various risk management/worker's compensation programs. We recommend the amount or percentage of funds, if any, that may be used to support the offices be included in the policy. We also recommend that all policy revisions be included in the NSHE Procedures and Guidelines Manual.

Institution Response

We concur with these recommendations. A discussion on administrative changes to the risk management program, including this section of the Procedures Manual, was on the agenda for both the June 2010 and September 8, 2010 Business Officers' Council meetings. Based on these discussions, revisions to the Procedures Manual have been drafted and are currently being circulated to affected areas in the System. It is anticipated that the changes will be finalized at the December 1, 2010 Business Officers' Council meeting and will then be presented to the Chancellor's Cabinet at their next meeting for incorporation into the Procedures Manual.

FOLLOW-UP RESPONSE:

The changes to the NSHE Procedures Manual have been made. The changes reflect the comments made by the auditor. We will follow all of these procedures.

We respectfully request that this item be closed.

The Internal Audit Department appreciates the cooperation and assistance received from the UNLV Risk Management and Safety Office during this review.

Reno, Nevada
October 12, 2010

Scott Anderson
Internal Audit Manager

Sandra K. Cardinal
Assistant Vice Chancellor for
Internal Audit and Risk Management



AUDIT: UNLV Risk Management & Safety/Worker’s Compensation

AUDIT PERIOD: 01/01/2009 – 04/30/2010

NUMBER OF FINDINGS: 4

NUMBER OF RECOMMENDATIONS IMPLEMENTED: 4

Nbr	Finding	Agree	Implemented	Est Date of Completion
1	Unrelated goods & services purchases	No		
2	Charges made to incorrect subobject code	Yes	Yes	
3a	University should reverse assessment to self-supporting accounts	No		
3b	University should discontinue future assessments	No		
4	NSHE policy needs revision	Yes	Yes	