

SUMMARY

The Navajo Nation (Nation) Office of the Auditor General has conducted a performance audit of the Insurance Services Department (Insurance Services) within the Division of General Services. The purpose of Insurance Services is to establish adequate cost-effective insurance coverage and safety programs to protect life and property of the Nation, chapters and its enterprises. This audit evaluates the adequacy of Insurance Services' administrative controls in managing risk of loss, responding to loss control and providing a workers compensation program for the Nation, chapters and its enterprises.

Risk Management Program (Risk Management). Risk Management does not monitor the cost of risk to reduce the risk exposure of the Nation. There is a variance of approximately \$1.3 million on self-insured losses between the Risk Management claims management system and the Controller's accounting system for fiscal year 2003. In addition, risks are not effectively identified and cost of risk is not properly allocated to the Nation departments. The Nation self-insurance liability fund has approximately \$7.0 million surplus balance. The purpose of the surplus is to minimize the potential need for other resources in the event loss experience is worse than expected. However, Risk Management could not provide information on the level of surplus fund deemed sufficient to pay for unexpected losses. In addition, there is very little communication between Risk Management and Nation departments/chapters to control the cost of risk.

Workers Compensation Program (WCP). WCP has not developed formal internal policies and procedures which would assist them in maintaining consistency in handling workers compensation claims. There was a lack of monitoring in processing workers compensation claims. In addition, WCP is maintaining a surplus balance in the self-insurance workers compensation fund of approximately \$9.3 million for catastrophic events. Typically, a government that operates a self-insurance program protects itself from catastrophes by buying excess workers compensation insurance. Further, WCP does not allocate workers compensation premiums by Nation departments. The risk of injury based on job classification and business activity is not considered in allocating insurance premiums. Consequently, there is no incentive to reduce claims at the department or employee level.

Safety and Loss Control Program (Safety). Safety is not proactive in promoting safety awareness. There are no written administrative policies and procedures to provide detailed instruction on the handling of investigations from assignment to completion. There is no tracking system for accident/injury investigations. Safety is not analyzing risks to reduce or eliminate all potential sources of loss.

Department Director Administrative Function. Insurance Services Director did not exercise adequate oversight over program operations. Purchase of insurance coverage within Risk Management is not adequately segregated. Risk Management did not use competitive bid in procuring the services of one consultant for approximately \$64,000. The Department Director's excessive travel hindered the effective management of the department and programs.