



Report Highlights

Office of Risk Management

Cost Savings Update - Fiscal Year 2013

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Why We Conducted This Audit

We determined the current status of the Office of Risk Management (ORM) contract with F.A. Richard & Associates (FARA) as of April 30, 2014, including the cost savings as of June 30, 2013, the end of the third year of the contract.

What We Found

On June 8, 2010, ORM awarded FARA five-year contract, beginning July 1, 2010, and ending on June 30, 2015, to privatize the state's lines of insurance and loss prevention services. The original contract amount of approximately \$68.1 million was amended in April 2011 to approximately \$74.9 million (an increase of 10%). According to ORM, additional funds were needed to accelerate moving the lines of insurance to FARA because of the high turnover of ORM employees.

Current Status. As of April 30, 2014, ORM had transferred all of its nine lines of insurance and associated services to FARA. This completed all four phases of the implementation schedule, as shown below.

Implementation Schedule, As of April 2014			
Phase	Line of Insurance or Service	Original Contract Implementation Date	Actual Implementation Date
I	<ul style="list-style-type: none"> Loss Prevention Services Workers' Compensation Subrogation Recovery Second Injury Fund Recovery 	9/1/2010	7/2/2010
			9/1/2010
			9/1/2010
			9/1/2010
II	<ul style="list-style-type: none"> Property 	1/1/2012	1/16/2012
III	<ul style="list-style-type: none"> Medical Malpractice 	1/1/2013	8/1/2012
	<ul style="list-style-type: none"> General Liability 		7/1/2011
IV	<ul style="list-style-type: none"> Road Hazard 	11/1/2013	7/1/2013
	<ul style="list-style-type: none"> Auto Liability/Physical Damage 		

Source: Prepared by legislative auditor's staff using information provided by ORM.

Cost Savings. ORM projects net program savings of \$22 million as a result of the FARA contract. Net program savings consist of *claims and litigation payment savings* and *administrative and other cost savings* versus contract costs. A breakdown and the status of the savings as of June 30, 2013, are as follows:

- **Claims and Litigation Payment Savings.** FARA achieved approximately \$34.2 million (68.4%) of the \$50 million in *claims and litigation payment savings* it guaranteed to the state during the five-year term of its contract with ORM. However, in fiscal year 2013, ORM changed its methodology for estimating savings in this category to include workers' compensation claims settled by FARA, which increased its savings calculation.
- **Administrative and Other Cost Savings.** ORM achieved approximately \$11.9 million (29.8%) of the \$40 million in *administrative and other cost savings* it needs to achieve \$22 million in net program savings. ORM has two years to achieve the remaining \$28.1 million (70.2%).
- **Net Program Savings.** Based on the above savings and the cumulative Year Three contract costs (\$30.2 million), ORM has achieved net program savings of approximately \$15.9 million as of June 30, 2013, or 72.3% of the \$22 million. The formula is as follows:

$$\text{Cumulative Three-Year Contract Costs } (\$30.2 \text{ million}) - \text{Administrative and Other Cost Savings } (\$11.9 \text{ million}) - \text{Claims and Litigation Payment Savings } (\$34.2 \text{ million}) = \mathbf{\$15.9 \text{ million Net Program Savings}}$$

View the full report, including management's response, at www.la.gov.