



State of Louisiana

**OFFICE OF
STATE INSPECTOR GENERAL**

**OFFICE OF RISK MANAGEMENT
GLASS OVERCHARGES**

Report by

Inspector General Bill Lynch

Prepared for

Governor M.J. "Mike" Foster, Jr.

February 18, 1998

File No. 1-97-0097



State of Louisiana

**OFFICE OF
STATE INSPECTOR GENERAL**

Office of Risk Management

Glass Overcharges

January 21, 1998

Report by

A handwritten signature in black ink, appearing to be "B. Lynch", written over a horizontal line.

Inspector General Bill Lynch

Approved by

A handwritten signature in black ink, appearing to be "M. Foster", written over a horizontal line.

Governor M.J. "Mike" Foster, Jr.

File No. 1-97- 0097

Office of Risk Management Glass Overcharges

State Office of Risk Management auto glass payment procedures are insufficient to detect over-billing for glass replacement repairs. A two month test period in 1997 showed the agency paid incorrect billings on 61 of 100 invoices reviewed, amounting to a net overcharge of \$1,504.

Background

The State office of Risk Management was created as an ancillary agency within the Division of Administration in order to provide a comprehensive insurance program for the state. Coverage includes auto liability, comprehensive and collision to the state's fleet. Individual state agencies are generally responsible for the first \$100 of auto glass replacement charges with Risk Management paying the balance.

The State Purchasing Office awards auto glass contracts to a single vendor in each of 12 regions of the state. The contract requires the vendor to deduct a set percentage off the National Auto Glass Specifications (NAGS) list prices of auto glass. The contract year runs from October 1 through September 30.

During the first 11 months of fiscal year 1997, Risk Management processed 1,500 auto glass payments totaling about \$215,000.

Agency Procedures

Glass replacement invoices received from contracted vendors generally list the make and model of the vehicle the glass was installed on, the NAGS part number of the glass installed, the NAGS list price and the net price after a discount was applied. An error in any of these factors could result in an incorrect billing.

Risk Management written procedures for payment of invoices for auto glass replacement on state vehicles do not require the examiner to verify that the invoice contains the correct

NAGS part number for the make and model of auto involved, that the list price is correct or that the discount rate is in compliance with the contract.

The actual procedure used when paying an invoice for glass replacement only verifies that the discount rate applied to the list price is in compliance with the contract. No verification is made of the part number or list price.

Overcharges & Overpayments

As previously noted, Risk Management processed 1,500 glass repair invoices during the first 11 months of 1997. One hundred out of 595 invoices for glass replacement processed in June and July 1997 were tested for accuracy. The 100 invoices totaled \$21,334. Out of the 100 invoices tested, 71 contained discrepancies. Discrepancies in 61 of these invoices resulted in inaccurate billings to Risk Management. Further audit of the inaccurate billings revealed that the invoices contained \$1,823.37 in overcharges and \$318.67 in undercharges for a net overcharge of \$1,504.70 for the two month period.

A spokesman for one auto glass company whose invoices contained inaccuracies explained that NAGS updates its price list in September and March. In response to the NAGS price update, his company's list prices are electronically updated in its central computer system that is used to generate each shop invoice. Once the list prices are updated, the new list prices are used when calculating the net price charged. This practice results in inaccurate billings since Risk Management is billed at the new rate after March although the contract prices are valid through September.

Conclusion:

1. State Office of Risk Management auto glass payment procedures are insufficient to prevent payment of incorrect invoices. This has resulted in a net overcharge to Risk Management totaling \$1,504.70 during a two month period.

Recommendation:

1. Risk Management should establish procedures for glass repair payments which ensure invoice errors are detected.

Response:

See Attached.

I. G. Comment:

Any actions taken by the Office of Risk Management to fulfill the requirement to detect invoice errors should be instituted in the most cost effective manner.

BL/CW/fs

File No. 1-97-0097



M. J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

January 20, 1998

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

Mr. Bill Lynch
State Inspector General
Office of State Inspector General
P. O. Box 94095, Capitol Station
Baton Rouge, LA 70804-9095

RE: Your File No. 1-97-0097

Dear Mr. Lynch:

We have reviewed your findings and recommendations relative to glass replacement claims handled by the Office of Risk Management. We concur with the findings of the Office of State Inspector General.

NAGS (National Auto Glass Specifications) Catalogs were purchased and new procedures were instituted in August, 1997. The Claims Examiner in the Transportation Unit performs the following tasks:

1. Receives DA2073 (Vehicle Glass Repair/Replacement Loss Notice) from state agency along with vendor's invoice.
2. Verifies data on DA2073 with invoice as to year, make, and model of vehicle along with verifying license, equipment or vehicle identification number to make sure that the invoice is for the same vehicle listed on the loss notice.
3. Searches for the year, make and model of vehicle in the NAGS catalog to verify part number listed on vendor's invoice. If there is a discrepancy, the vendor is contacted. This matter would be corrected or the vendor will advise that a substitute part number could be used on this vehicle and that the part number listed on the invoice is correct.
4. Once the part number has been established, a search is made in the NAGS catalog to determine the price. If the price on the invoice is incorrect, we note the proper price on the invoice. Invoices are checked to make sure that the correct discount rate has been applied. If not, the invoice is corrected accordingly.
5. Checks invoice for any non-contract expenses, i.e., labor rates. If necessary, deletes items and recalculates total.

Mr. Bill Lynch
January 20, 1998
Page 2

6. Checks invoice for sales tax and deletes if included since the state is exempt from paying sales tax.
7. Once items are verified as correct, a calculator tape is run and attached to the invoice. If corrections were made, the ORM claim number is written at the top of the invoice. Two copies of the invoice are made. One copy is returned to the respective agency for their records. The other copy is submitted along with the complaint form to the State Central Purchasing Office. The deductible (\$100) is subtracted from the correct invoice amount and a check is requested to the vendor for the difference. The state agency is responsible for payment of the deductible.
8. In some cases the contract glass vendors are unable to supply the specified glass replacement. This is often the situation with replacement of glass on Bluebird buses. Bus glass is made of privacy laminate and usually can not be provided through contract vendors. This glass must be obtained through a dealer of bus maintenance. In these cases, upon receipt of documentation from the state agency indicating that the state contract vendor can not supply the glass, ORM will pay the invoice from a non-contact vendor provided all the other required information has been verified.

Because of the changes in our procedures a full time examiner/adjuster handling windshield replacement claims is now required. Prior to the implementation of these new procedures, the Transportation Claims Examiner handled windshield repair, collision and comprehensive claims in addition to the glass replacement claims.

Since August, 1997 when we changed our procedures, we have completed and submitted 28 Deficiency/Complaint Reports (DA 3496) to the Division of Administration - State Central Purchasing Office. Refer to attachment A.

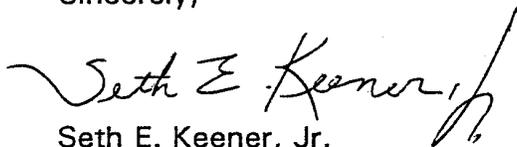
It is ORM's position that the accounting department or the purchasing office for each state agency should be the responsible party for verifying the accuracy of these invoices in accordance with the state contract for glass replacement which was bid and awarded by the State Central Purchasing Office prior to submitting their insurance claim to our office. In our opinion, the procedure could be simplified by requiring the agencies to submit two (2) estimates as is done on other collision/comprehensive claims.

Mr. Bill Lynch
January 20, 1998
Page 3

In conclusion, ORM has instituted written procedures to correct the deficiencies found by the Office of State Inspector General. However, it is not cost effective and consideration should be given to the overall review of the entire glass replacement program, i.e., state contracts vs no competitive bidding for glass replacement under a specified amount. We have actually had instances whereby we could have purchased windshields at a cost that was lower than the contract price. During the calendar year 1997 ORM paid \$116,076.37 for 986 glass replacement claims on state vehicles which represents .08% of the \$143,445,386.00 overall claims payments made by ORM. Refer to attachment B.

If additional information is needed please contact this office.

Sincerely,

A handwritten signature in cursive script that reads "Seth E. Keener, Jr." with a stylized flourish at the end.

Seth E. Keener, Jr.
State Risk Director

SEK/ADW

Attachments