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August 22, 2008

Members of the North Dakota Interim Industry, Business, and Labor Committee

Members of Workforce Safety and Insurance Board of Directors

Mr. Bruce Furness, Interim Executive Director and CEO, Workforce Safety & Insurance

Transmitted herewith is the performance audit of the modified workers' compensation coverage program and safety inspection of the Roughrider Industries work programs. This report contains the results of our review for the fiscal years 2007 and 2008. The audit contains a review of Roughrider Industries' participation in the risk management program, evidence of excess or reinsurance coverage, any claims for benefits, and minimum premium and allocated loss adjustment expenses.

This audit was conducted as mandated in North Dakota Century Code Chapter 65-06.2. Included in the report are the audit objectives, findings, and conclusions.

Sincerely,

Ann Thorson  
Policyholder Services  
Workforce Safety & Insurance  
1600 East Century Avenue, Suite 1  
Bismarck, ND 58506  
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## **INTRODUCTION**

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### **Purpose of the Audit**

North Dakota Century Code (NDCC) section 65-06.2-09, requires Workforce Safety & Insurance (WSI) to submit a report with recommendations based on the performance and safety audits to an interim committee designated by the Legislative Council no later than thirty days before the commencement of each regular session of the Legislative Assembly. The performance audit of the program for modified workers' compensation coverage was conducted by WSI's Policyholder Services department while the safety inspection of Roughrider Industries' Prison Industry Enhancement (PIE) Certification work program was conducted by a WSI Loss Prevention Specialist.

### **Background Information**

To allow Roughrider Industries to continue receiving federal funding through the PIE Certification Program, the modified workers' compensation coverage program was established to provide coverage for inmates incarcerated at the State Penitentiary who are working in a prison industry program.

In accordance with NDCC section 65-06.2, WSI, in cooperation with the Department of Corrections and Rehabilitation (DOCR), adopted administrative rules and fee schedules for the modified workers' compensation coverage program effective May 1, 1998. In March 1999, the DOCR, on behalf of Roughrider Industries, applied for participation in the modified workers' compensation coverage program.

### **Objectives of the Audit**

Our overall objective was to evaluate the performance of the modified workers' compensation coverage program as mandated in NDCC section 65-06.2. Specifically,

- Objective 1. Is the participant meeting WSI's Risk Management Program requirements?
- Objective 2. Verify excess coverage or reinsurance has been obtained.
- Objective 3. Identify any claims filed for workers compensation benefits.
- Objective 4. Are premium and other costs being collected?

### **Scope and Methodology**

Audit fieldwork was conducted in August 2008. The audit period for which information was collected and reviewed was from July 1, 2006, through June 30, 2008. We performed this audit using criteria contained in North Dakota Century Code (NDCC); North Dakota Administrative Code (NDAC); and employer account files maintained within WSI's Policyholder Services and Safety/Loss Prevention departments. To achieve our audit objective, paper and electronic documents from the employer account files were obtained from Policyholder Services and Safety/Loss Prevention departments. This documentation was evaluated and compared with requirements established by NDCC and NDAC. Specific methodologies are identified in the respective sections of this report.

## **MODIFIED WORKERS' COMPENSATION COVERAGE PROGRAM**

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### **Risk Management Program Participation**

Roughrider Industries was previously required to qualify for WSI's Risk Management Program (RMP) prior to modified workers' compensation coverage being provided. In May 2005, a WSI loss prevention specialist conducted the annual review of the Risk Management Program at Roughrider Industries. Roughrider Industries was found to be in compliance with all qualifying factors of the RMP for premium period July 1, 2004, through June 30, 2005.

In August 2005, WSI changed to the Risk Management Program Plus (RMP+) and RMP became obsolete as the premium year ended for each account. The RMP+ is an incentive program that gives employers the opportunity to receive a premium discount if they meet specific claim frequency and severity rates or remain loss free during the reporting period. However, since Roughrider Industries only pays the minimum premium amount regardless of claims, the reduction does not apply.

### **Excess Coverage or Reinsurance**

NDCC sections 65-06.2-06 and 65-06.2-07 require Roughrider Industries to secure a means of reinsuring excess costs and expenses to minimize exposure of loss to the state general fund. In addition, Roughrider Industries must secure excess coverage or reinsurance to qualify for the modified workers' compensation coverage program. NDAC section 92-01-04-02 requires the DOCR to provide annual documentation of excess or reinsurance coverage to WSI. Documented verification of excess coverage was provided to WSI on June 19, 2006, and again on July 25, 2008, for the premium periods July 1, 2006, through June 30, 2008.

### **Claims for Workers Compensation Benefits**

All claims for workers' compensation coverage benefits must be filed according to NDCC section 65-05-01. Between the period of July 1, 2006, and June 30, 2008, there were no injury claims.

### **Minimum Premium**

NDAC section 92-01-04-03 requires Roughrider Industries be billed an annual amount equal to WSI's minimum premium charge to cover the expense of issuing coverage. WSI billed and Roughrider Industries has paid the minimum annual premium of \$250 for the premium periods of July 1, 2006, through June 30, 2008.

## **AUDIT RESULTS**

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No significant deficiencies were identified regarding the intent, effectiveness and legal requirements applicable to this program. We conclude the desired results and effectiveness of the program are being achieved.

## **APPENDIX**

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### **PIE Audit Notes**

The PIE Program Audit was conducted by Jim Ash on August 6, 2008 with Mr. Bernie Duven at the JRCC. The PIE work area is with the main Rough Rider Industries area.

The PIE program consists of approximately four inmates. The PIE operations are: Sewing Machine, Computer control sewing, bench vise, small press for clothing buttons and a finished goods inspection process. All processes were demonstrated for the audit except the computer controlled sewing machine.

The RMP Annual Review Checklist was used for the audit protocol. All elements were found to be implemented with the exception of the following recommendations:

1. Accident Investigation. One accident was reviewed during this audit. In reviewing the accident, one of the contributing factors was noted to be that the power was not isolated when changing dies in the press. NDWSI recommends that all accidents are investigated and corrective actions identified and implemented that we prevent the reoccurrence of similar accidents.
2. Training Program. The PIE program has a new hire training program, however ongoing training is limited. NDWSI recommends the PIE Program implement an on-going safety training program.

If there any questions do not hesitate to contact:

**Jim Ash**

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July 25, 2008

Mr. Barry Schumacher  
Director of PHS - Operations  
Workforce Safety & Insurance  
1600 East Century Avenue  
Bismarck ND 58503

Re: Rough Rider Industries PIE Program

Dear Mr. Schumacher:

This is to advise you that the excess and reinsurance coverages are in place to meet the requirements of N.D.C.C. § 65-06.2-06 and 65-06.2-07 with regard to the Rough Rider Industries Enhancement Certification Program. Said coverages will be provided by the North Dakota Risk Management Fund and its excess carrier.

If you have any questions, do not hesitate to contact me.

Cordially,

  
Johanna Zschomler, Director

cc: Leann Bertsch, Director Department of Corrections and Rehabilitation  
Dennis Fracassi, Director Rough Rider Industries

