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September 26, 2013

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SUBJECT: FOLLOW-UP AUDIT OF RISK MANAGEMENT CLAIMS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement 02-02 entitled Internal Operational Auditing and the Memorandum of Understanding between the department of Risk Management and the office of the Auditor-Controller/Treasurer/Tax Collector dated August 23, 1991, the Internal Audits Section of the office of the Auditor-Controller/Treasurer/Tax Collector (ATC) has completed a follow-up audit of Risk Management's claims processing over liability and worker's compensation claims. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors.

Objective, Scope and Methodology

The objective of this follow-up audit was to determine whether the Department of Risk Management (Department) implemented the recommendations contained in the prior audit report, *Audit of Risk Management's Claims Processing Over Liability And Workers' Compensation Claims* issued October 15, 2008. The audit period was July 1, 2011 through June 30, 2012. During this period, the Department issued $12.8 million in claims. To achieve our objective, we:

- interviewed Risk Management Department employees
- reviewed and analyzed internal controls
- examined files and documents

Conclusion

Three of the five recommendations from the previous audit report were implemented. However, one was not implemented and another was only partially implemented. No further follow-up of the implemented recommendations will be necessary.

We sent a draft report to Risk Management Department on August 8, 2013 and discussed our findings with Management on the same date. Risk Management's response to our recommendations is included within this report.

Finding 1: **Reconciliation controls could be improved.**

Standard practice of Risk Management– Reconciling FAS claim payments with ACS claim payments requires a monthly reconciliation between FAS and ACS along with minimum documentation requirements. During our testing of the reconciliations, we noted reconciliations were not being prepared and reviewed within 2 ½ months. Also, one reconciliation did not include a JV accrual so the FAS balance reported on the reconciliation did not tie out to FAS. In addition, the staff only accounted for the differences between the activity of ACS and FAS for the specific month. The staff did not account for the beginning balances that may show differences that may have existed from the previous month's reconciliation.

Recommendations:

Follow the current standard practice of performing and reviewing reconciliations within 2 ½ months. Possibly change the standard practice to extend the Supervisor's review to 3 ½ months to accommodate the Supervisor's time constraints. We also recommend performing the reconciliations on the funds with the most activity first, because of the higher risk of errors that could occur within these funds. In addition, ensure staff is reconciling each month's accurate running balances for ACS and FAS.

Current Status: Implemented.

Finding 2: **Physical access to the main computer system is not secure.**

The physical access to the main computer system is not secure. The system is located in an unlocked room where anyone within the department can enter at will.

Recommendations:

The physical security over the main computer system should be improved. The room should be locked. If that is not possible, maybe consider moving the system to a more secure location.

Current Status: Implemented.

Finding 3: **Controls over claims processing could be improved.**

1. A release form that should have been in the closed claim file was not obtained.
2. A duplicate payment was made on the same claim.
3. The required stamp on the invoice which ensures the FAS download of payment was executed was missing for one claim.

Recommendations:

Ensure staff is obtaining a release form for every claim file whenever necessary. The Supervisor should be reviewing the claim file closure checklist to ensure staff has obtained the necessary release for files that require it and make note to follow up if it has not yet been received. Also, staff should be following the Standard Practice for Claims Processing more diligently to reduce the chances of duplicate payments being made.

Current Status: Partially implemented.

Risk Management took corrective actions for items 1 and 3 of this finding. However, there were four duplicate payment adjustments made on the date of the auditor's fieldwork. This internal control weakness may allow errors, omissions, increased avoidable costs or fraudulent activity to occur.

Management's Response:

Currently payment documents (releases, invoices, etc.) are returned to our department from fiscal once they go through the payment approval process and they are manually sorted and dropped into the claim file. Effective September 9, 2013, we will begin to scan these documents into the electronic claim file in iVOS. This will best ensure that all payment documents are made part of the claim file after the payment process is completed.

The iVOS claims system generates an automatic flag when it appears that a duplicate payment entry has been made. It will be the claim adjusters responsibility to check the payment in question to ensure that a payment entry is not a duplicate payment regardless if a red flag appears or not. Also, it is the goal of the adjuster to enter an invoice for payment within 30 days from receipt. This will reduce the instances of duplicate billings and the possibility of duplicate entries.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding 4: **A claim form was not obtained within 30 days of notice of injury.**
It was noted that a claim form was not obtained within 30 days of notice of injury. In addition, the claim form was obtained, however it wasn't until after the file had been closed and payments had already been made.

Recommendations:
Ensure the adjusters are verifying with the employer that a claim form has been sent to the claimant immediately after notice of injury. If not, the adjusters should be sending out the claim form themselves. Possibly set up a checklist within the file showing these steps were performed.

Current Status: Implemented.

Finding 5: **A death audit report should be obtained to verify cycle payments are not being paid out to deceased recipients.**
The Department does not obtain a death audit report to verify cycle payments are not being paid out to deceased recipients.

Recommendations:
Obtaining a death audit report periodically can reduce the chances of making payments to deceased recipients. We recommend that the Department have a death audit report ran on recipients of cycle payments on a regular basis for example monthly or quarterly. We suggest using a company like the Berwyn Group (www.Berwyngroup.com) to perform the death audit. They specialize in mortality verification and their aim is to prevent payments being sent to unlawful or unintended beneficiaries.

Current Status: Not implemented.
The adjusters were checking the website once per year in 2009, 2010, and 2011. The last time the website was checked on 3/1/2011. This issue may allow payments to be made to deceased recipients.

Management's Response:

The Future Medical Adjusters check the Social Security Death Index approximately every 6 months on their Life Pension cases. Additionally, we made contact with The Berwyn Group and are presently reviewing interfacing options and pricing.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

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San Bernardino County

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