

# County of Santa Clara

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June 10, 2015

Assignment 10331

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Board of Supervisors  
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From: Rebecca Haggerty, Internal Audit Manger *RH*

Subject: Internal Audit Report: Audit of the FY14 Medicare B Reimbursement Payments' Internal Controls

We have completed an Audit of the FY14 Medicare B Reimbursement Payments' Internal Controls as scheduled in the FY15 Audit Plan. We completed this audit on January 30, 2015. It is anticipated that this audit will be submitted to the Board of Supervisor's Finance and Government Operations Committee during the summer of 2015.

This report discusses the Medicare B reimbursement payment transaction process. The audit encompassed County payments for Medicare B reimbursement made during

FY2014 (Q1 and Q3). We concluded that significant improvement is needed to strengthen the process in validating eligibility, processing retroactive payments, and processing quarterly data files.

We appreciate the cooperation extended by the Employee Service Agency's staff. Their assistance contributed to the successful completion of this audit.

Attachments:

Internal Audit Report: Audit of the FY14 Medicare B Reimbursement Payments'  
Internal Controls

Management Responses

# COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT-Internal Audit Division

## INTERNAL AUDIT REPORT

Audit of the FY14 Medicare B Reimbursement  
Payments' Internal Controls



Assignment 10331  
June 10, 2015

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## Executive Summary

### Conclusion

Significant improvement is needed to strengthen the processes over Medicare B reimbursement payment transactions. Areas needing improvement are:

- Validating retiree initial eligibility (Finding One)
- Validating retiree's ongoing eligibility (Finding Two)
- Processing retroactive payments (Finding Three)
- Reconciling and processing quarterly data files (Finding Four)

In this audit, priority was mainly based on qualitative factors. The report includes 22 recommendations of which:

- four are Priority One<sup>1</sup>,
- nine are Priority Two<sup>2</sup> and
- ten are Priority Three<sup>3</sup>.

In several cases we understand that the Employee Services Agency has already initiated improvement. We encourage ESA to continue this effort. It is our hope that full implementation of all of these recommendations occurs by January 2016, with higher priority recommendations implemented earlier. The Internal Audit Division plans to perform a follow-up on these recommendations in FY15-16.

### Objective

The objective of this audit was to test the controls over the accuracy and completeness of Medicare B reimbursement payment transactions uploaded from the benefits administration system (aka PeopleSoft) to the financial and accounting system (aka SAP) for disbursement.

### Scope

This audit encompassed County payments for Medicare B reimbursements made from July 2013 through September 2013 and from January 2014 through March 2014.

We obtained understanding of the internal control structure, analyzed its effectiveness, and reviewed 35 sample transactions.

This audit was performed in accordance with the Internal Audit Annual Work Plan and was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

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<sup>1</sup> Priority One recommendations... include significant weaknesses in internal controls.

<sup>2</sup> Priority Two recommendations... include revisions to departmental or program policies and procedures.

<sup>3</sup> Priority Three recommendations... would result in modest improvements to service delivery, operational efficiency, or program effectiveness.

A draft copy of the report was discussed with the department managers prior to issuance of the final report. The department's formal response is attached to this report.

## **Background**

In accordance with the County's labor agreements, the County provides medical benefits to qualifying retirees. Retirees over the age of 65 or otherwise eligible for Medicare Part B are required to be enrolled in such plan and the County has agreed to reimburse retirees for the cost of Medicare Part B premiums on a quarterly basis. In general, this reimbursement is subject to the maximum County contribution for retiree medical. These reimbursements are administered by the County's Employee Services Agency (ESA).

The responsibility for enrollment and processing of reimbursement payments is divided between two divisions within ESA (ESA-Benefits and ESA-Fiscal). ESA-Benefits is responsible for enrolling retirees, making changes to retiree status, and inputting data into PeopleSoft. ESA-Benefits provides a screen print of retiree information to ESA-Fiscal. ESA-Fiscal creates payment files in an Excel spreadsheet, compares and reconciles the data from PeopleSoft to the payment file, and provides an Excel spreadsheet payment file to the Controller-Treasurer Department for upload into SAP.

**Background cont'd.** Quarterly processing is performed in two groupings based on whether a person retired prior to 1984 or after 1983. This is because the pre-1984 retiree group receives full Medicare Part B reimbursement regardless of the health plan in which they are enrolled; whereas, the Post 1983 retirees' reimbursement is the difference between the lowest costing health plan for a retiree and the Medicare premium paid by the County for a particular health plan.

<b>Chart One: Pre/Post Retiree Statistics</b>			
		<u>Total Retirees</u>	<u>Amount</u>
FY2014 - 1st Quarter	Pre 1984	257	\$ 81,266
FY2014 - 1st Quarter	Post 1983	3,959	1,101,510
<b>Total</b>		<b>4,216</b>	<b>\$ 1,182,776</b>
FY2014 - 3rd Quarter	Pre 1984	243	\$ 76,735
FY2014 - 3rd Quarter	Post 1983	4,074	1,129,699
<b>Total</b>		<b>4,317</b>	<b>\$ 1,206,434</b>

Signature on File

Rebecca Haggerty *RH*  
 Internal Audit Manager  
 June 10, 2015

Attachments: Management Responses



## Findings and Recommendations

### Finding 1 Validating retiree initial eligibility

a. We reviewed 35 sampled payments and noted eligibility and payment concerns, including:

- Minimum service time was not met for three retirees.
- Payments exceeded the allowed amount for one retiree who had waived coverage.

We suggest that the above instances be reviewed and, if applicable, corrected. See Recommendation 1.2.

b. When reviewing the 35 sampled payments, we identified issues related to the processing of enrollments.

- On a reimbursement basis, the County pays retirees for costs of enrolling in Medicare B. A reimbursement is “to make repayment to for expense or loss incurred.” Therefore, it is important to ensure that payments are being made for the coverage. In many cases, the County can determine that a person is enrolled in Medicare and, through knowledge of their health insurance plan, can calculate the cost. The County requires demonstration of proof of payment in cases where the reimbursement is greater than the standard amount. We suggest that documentation of enrollment is always obtained and documentation of payment is required in cases where the payment cannot otherwise be confirmed. See Recommendations 1.1 and 1.3.
- When enrolling retirees for Medicare B reimbursement, the County’s practice is to require the Medicare B Card, Waiver or Enrollment form, and Statement of Understanding. Each document serves a key purpose.

<b>Chart Two: Purpose of Key Documents</b>		
<u>Document</u>	<u>Source Agency</u>	<u>Purpose</u>
Medicare B Card	Social Security Administration	Identifies the retiree’s health and medical insurance status.
Waiver Form	County of Santa Clara – ESA	Attestation of retirees’ waiver of medical plan coverage through the County of Santa Clara.
Enrollment Form	Insurance Carrier	Retirees’ personal and Medicare information.
Statement of Understanding	County of Santa Clara – ESA	Attestation of retirees’ active Medicare B Coverage



This practice is not always adhered. The county enrolls retirees without obtaining the documents. When obtained, the documents are maintained in the Human Resource File (HR File).

c. Upon review of the HR File for the 35 sampled payments, we noted:

- In two cases, the HR file could not be located.
- In 33 files, the Medicare B card and supporting documents were not available or were incomplete as noted in Chart Three.

See Recommendations 1.4 and 1.5.

<b>Chart Three: Medicare B Card and Forms</b>		
Card not evidenced in file	8 of 33*	24%
Card not signed	6 of 25**	24%
Waiver Form not in file	5 of 8	63%
Enrollment Form not in file	1 of 25	4%
Statement of Understanding not in file	17 of 33	52%

\* Five of the eight retirees provided Social Security Administration letters instead of Medicare B cards

\*\* Although lack of signature may not affect benefits, it is a better practice to require personal attestation through signature.

- d. Retirees' information entered and updated in PeopleSoft by staff is not verified or reviewed by a second person. Because the process relies on the data that is input, a second review can be very helpful to identify and correct errors, if any. Data entry inconsistencies, although perhaps seeming minor, can significantly inhibit data analysis. We noted examples where there was a lack of consistency in the convention used for entering names, including missing spaces, inserted commas, inconsistent capitalization, etc. We suggest that data entry be reviewed by a second person. See Recommendation 1.6.
- e. Not all data is included in PeopleSoft. We noted that some of the years of service information is retained on paper history cards (aka Kardex) instead of in the computerized system. This results in manual calculations of eligibility and lack of data in the computer system for use in determining eligibility, monitoring, reporting, etc. We suggest that consideration should be given to placing this data into PeopleSoft. See Recommendation 1.7.
- f. There are few written policies and procedures establishing guidelines and practices for Medicare B reimbursement processing. See Recommendation 1.8.

- Recommendation 1.1** ESA - Benefits should require a supervisory review and approval of retirees' eligibility, including service time, disability, etc. Such a review could be done on a risk-based sampling basis.  
(Priority 2) [Expected 1/31/16]
- Recommendation 1.2** ESA – Fiscal management should work closely with ESA – Benefits to investigate and take appropriate actions (i.e. stop future reimbursement payment, request for return of money, work with the District Attorney) if ineligible payments were made.  
(Priority 2) [Expected 9/30/15]
- Recommendation 1.3** ESA-Benefits should utilize information from the Medicare Program (example: Medicare.gov website) to validate that employees are enrolled in Medicare B. This should be done prior to approving the retiree's reimbursement. See website:  
<https://www.medicare.gov/find-a-plan/enrollment/check-enrollment.aspx>  
(Priority 2) [Expected 12/31/15]
- Recommendation 1.4** ESA-Benefits should ensure that all required documents are obtained prior to enrolling retirees for reimbursement. Required documents should include, at least, Medicare program enrollment verification and payment verification.  
(Priority 2) [Expected 9/30/15]
- Recommendation 1.5** ESA-Benefits should obtain the missing documents and files identified for the sampled items and existing population.  
(Priority 3) [Expected 9/30/15]
- Recommendation 1.6** ESA – Benefits management should monitor the accuracy of data entered into PeopleSoft.  
(Priority 1) [Expected 9/30/15]
- Recommendation 1.7** ESA – Benefits should study and consider the concept of uploading the information maintained on paper Kardex files to PeopleSoft.  
(Priority 3) [Expected 9/30/15]
- Recommendation 1.8** ESA-Benefits Unit should update its standard practices and formally document the policies and procedures.  
(Priority 3) [Expected 12/31/15]

**Finding 2**

**Validating retiree's ongoing eligibility**

When reviewing the 35 sampled transactions, we noted issues over the ongoing enrollment of retirees. In one case, payments were made to a retiree who died several years ago. The quarterly payment was \$314.70, and the cumulative overpayment was approximately \$5,000.

After the initial Medicare B reimbursement enrollment setup, a disbursement to the retirees automatically reoccurs quarterly. Process to verify retirees ongoing eligibility is limited to:

- Analyzing the Kaiser Monthly Medicare Activity Report – Section 6: Deceased Members.
- Analyzing the Kaiser Monthly Medicare Activity Report – Section 9: Members Over 65 Not Enrolled in a Medicare Plan.
- Receiving notification by a relative or other external party.
- Reading the obituaries.
- Reviewing the Controller-Treasurer Department's monthly report of stale dated warrants.

The Kaiser reports appear to be useful; however, the Kaiser report is limited to retirees covered under Kaiser insurance. As such, not all retirees are included because not all retirees are covered by Kaiser. We compared information from the Kaiser report of deceased members to Medicare B payments made and noted that all retirees were removed from the payment rolls. However, in at least two cases, there was a delay between the date of death and the removal from payment which resulted in overpayments. We suggest that the County change the procedures to eliminate overpayments. Also, the County should initiate collection with the retirees that were overpaid.

<b>Chart Four: Overpayments to Deceased Retirees</b>	
<b>Date Deceased</b>	<b>Payments Made post-death</b>
May 14, 2013	June through Sept 2013
Prior to December 2013	December 2013

Notification by others depends on the proactive action by others to contact the County. Similarly, reviewing the obituaries depends on the proactive action by others to arrange for a printed obituary. Although probably reliable, the information will not be comprehensive.



The report of stale dated warrants would identify situations where a warrant was issued and not cashed. However, it would not identify instances where the warrant was cashed after a retiree was no longer eligible (for example, cashed by a relative after death).

We have identified a website that is maintained by Medicare and provides eligibility information. We suggest that the County use information from Medicare to ensure ongoing eligibility.

When reviewing the 35 sampled payments, we identified the following issues related to the processing of ongoing payments.

- The actions taken to identify retiree changes are not adequate to identify all changes. We think that additional confirmation is warranted.
- Retiree's information updated/entered in PeopleSoft by staff is not verified or reviewed. We think a second review would be beneficial.

**Recommendation 2.1**

ESA – Benefits should obtain positive confirmation to ensure that retirees enrolled for Medicare B reimbursements continue to remain eligible. The following options should be considered:

- ✓ Utilizing the Medicare.gov website (Home > Check Your Enrollment) to validate that retirees are actively enrolled in Medicare B. Verification should be maintained as part of the retirees' HR file.

<https://www.medicare.gov/find-a-plan/enrollment/check-enrollment.aspx>

- ✓ Sending a Medicare Part B Reimbursement Application letter (positive confirmation) to retirees receiving these benefits. Due to the high volume of retirees currently enrolled for Medicare B reimbursement, management might consider incorporating a rotation approach by prioritizing retirees that are susceptible to error. Categories that are susceptible to error are those who retired prior to 1984, those who waived coverage and retirees greater in age.

Either option would improve confirmation of retiree status.  
(Priority 1) [Expected 1/31/16]



- Recommendation 2.2**      ESA – Benefits should change its practices in order to prevent payments to deceased retirees and to ensure collection of overpayments.  
(Priority 1) [Expected 6/30/15]
- Recommendation 2.3**      ESA – Benefits should complete a study to identify prior overpayments made and initiate collection.  
(Priority 2) [Expected 9/30/15]
- Recommendation 2.4**      ESA - Fiscal should consider monitoring stale dated warrant monthly reports for patterns and research transactions, as needed.  
(Priority 3)[Expected 9/30/15]
- Recommendation 2.5**      ESA – Benefits management should monitor and oversee the accuracy of data entered into PeopleSoft.  
(Priority 1) [Expected 9/30/15]

**Finding 3****Processing Retroactive Payments**

Retroactive payments (aka Retro-Pay) for Medicare B Reimbursements are processed either on-cycle or off-cycle. Retro-Pay requires special handling and analysis because the payments are a one-time payment and require manual calculation.

Of the 35 transactions sampled, nine were for on-cycle retro-pays. We noted there was no review and approval by ESA-Benefits for these payments. In addition to the 35 transactions, we sampled an additional five off-cycle retro-pay payments.

For both on and off cycle retro-pay, the following observations relate to the internal controls:

- Approval by ESA – Benefits is not obtained prior to forwarding to ESA-Fiscal for payment issuance. For the nine on-cycle retro-pays that we reviewed, there was no review and approval by ESA-Benefits.
- ESA did not proactively monitor the data to identify anomalies such as payments that are larger or older.
- A formalized policy to process retro-pay does not exist. Such policy should include, at least, guidance on amount, timing, reason, proof of payment requirements and required documentation.

Of the payments reviewed, two payments were made for non-Medicare B purposes. One was for interpreter/translator service, and the other was for a reissued warrant. In SAP, certain vendor numbers have been set aside for Medicare B payments, partially because this is a tax-exempt reimbursement payment. In both cases the operating department used one of these designated vendor numbers to make the non-applicable payment. One of the payments may be taxable and should possibly have an IRS Form 1099 issued.

**Recommendation 3.1** ESA should formalize retroactive payment policies and procedures.

Topics addressed should include:

- ✓ approval requirements by amount and approver.
- ✓ proof of payment requirements.
- ✓ reasons/justification for the retroactive payment.
- ✓ pro-active monitoring procedures including identification and review of larger amounts and older transactions to identify anomalies such as a large amount or significantly delayed payment.

(Priority 2) [Expected 12/31/15]

- Recommendation 3.2** ESA – Fiscal should initiate a project with the Controller-Treasurer's Department to restrict the use of the Medicare B designated vendor range (300000-399999 / vendor group "SCMB") to use by ESA only. (Priority 3) [Expected 9/30/15]
- Recommendation 3.3** The Controller-Treasurer Department should consider determining if other vendor groups should be similarly limited to avoid misuse, possibly using hard coding. (Priority 3) [Expected 6/30/15]
- Recommendation 3.4** The Controller-Treasurer Department should review the identified non-Medicare B payments and issue an IRS Form 1099, if needed. (Priority 2) [Expected 3/31/15]

**Finding 4**

**Reconciling and Processing Quarterly Data Files**

ESA-Fiscal performs quarterly analysis and reconciliation processing of payment data. Currently these functions are primarily performed by one individual, the ESA-Fiscal Senior Accountant. It would be an improved practice to segregate these duties between several employees.

The ESA-Fiscal senior accountant is responsible for:

- preparing/creating the reconciliation and payment files,
- comparing the reconciliation and payment files,
- comparing the payment file to SAP vendor master list,
- uploading the payment file to SAP,
- reconciling the check register to the file report before sending to SAP,
- reconciling the SAP FI Interface Transaction Upload report to the Approved – Medicare B Coversheet, and
- retrieving checks from the Information Services Department and deliver them to ESA-Benefits.

The Medicare B Coversheet is signed by the ESA - Fiscal senior accountant as the reviewer and ESA – Fiscal Officer as the approver.

After this processing is completed, the data is forwarded to the County's accounting system staff for input to the system and for printing of paper warrants. These warrants are then returned to the individual that submitted the data. It would be an improved practice to mail the warrants from the system staff instead of returning them to ESA. It would also be an improvement to encourage retirees to receive payments electronically using the ACH system.

**Recommendation 4.1** ESA – Fiscal management should enhance the quarterly Medicare B reimbursement process to ensure adequate segregation of responsibilities amongst ESA-Fiscal staff. This should entail allocating the following functions to multiple individuals:

- ✓ Preparing and comparing the reconciliation file to the payment file
- ✓ Reviewing and approving the payment file, as evidenced on the Medicare B Coversheet
- ✓ Uploading the payment file to SAP
- ✓ Reconciling the SAP FI Interface Transaction Upload report to the Approved- Medicare B Coversheet.
- ✓ (Priority 3) [Expected 12/31/15]



- Recommendation 4.2** ESA-Fiscal management should change the order of the processing to place the approval step so that it immediately precedes transmitting the payment file to the Controller-Treasurer Department's Fiscal Services Division for processing (instead of returning it to the preparer for finalization and transmitting).  
(Priority 3) [Expected 3/31/15]
- Recommendation 4.3** ESA – Fiscal management should make appropriate arrangements for warrants be mailed directly by the Information Systems Department.  
(Priority 2) [Expected 3/31/15]
- Recommendation 4.4** ESA – Benefits should adopt a practice to strongly encourage retirees to receive payments electronically using the ACH system.  
(Priority 2) [Expected 1/1/16]
- Recommendation 4.5** ESA should investigate the option of replacing the current processing with an automated interface between PeopleSoft and the accounting system, thereby eliminating the manual handling of paperwork and spreadsheets.  
(Priority 3) [Expected 1/1/16]

# County of Santa Clara


## Employee Services Agency

County Government Center, East Wing  
70 West Hedding Street, 8<sup>th</sup> Floor  
San Jose, California 95110-1705



June 10, 2015

To: Rebecca Haggerty, Internal Audit Manager  
Controller-Treasurer Department

From: Luke Leung   
Deputy County Executive

Subject: Departmental Response to Internal Audit Report: Audit of the FY14  
Medicare B Reimbursement Payments' Internal Controls

### **Recommendation 1.1**

ESA-Benefits should require a supervisory review and approval of retirees' eligibility, including service time, disability, etc. Such a review could be done on a risk-based sampling basis. (Priority 2) [Expected 1/31/16]

### **ESA Response – Recommendation 1.1**

Concur. Currently, a Human Resources Support Supervisor audits staff entries for new hires and changes to employment (including retirements) based on electronic Personnel Action Request (ePAR) records. Queries or reports will be created to assist the HR Support Supervisor with identifying retirees who should be reviewed on a random basis regarding eligibility and enrollment for Medicare B Reimbursement.

### **Recommendation 1.2**

ESA-Fiscal management should work closely with ESA-Benefits to investigate and take appropriate actions (i.e. stop future reimbursement payment, request for return of money, work with the District Attorney) if ineligible payments were made. (Priority 2) [Expected 9/30/15]

### **ESA Response – Recommendation 1.2**

Concur. Currently, when ESA-Benefits determines that ineligible payments were made, it is reported to ESA-Fiscal and future reimbursements are immediately stopped and any uncashed payments are cancelled. ESA-Benefits will audit records, such as reports on deceased employees, and review stale-dated check reports to identify if any collections are required for ineligible and cashed payments. ESA-Benefits will work with County Counsel, and the District Attorney, if necessary, to recover these funds.

**Recommendation 1.3**

ESA-Benefits should utilize information from the Medicare Program (example: Medicare.gov website) to validate that employees are enrolled in Medicare B. This should be done prior to approving the retiree's reimbursement. See website: <https://www.medicare.gov/find-a-plan/enrollment/check-enrollment.aspx> (Priority 2) [Expected 12/31/15]

**ESA Response – Recommendation 1.3**

Non-concur. ESA requires retirees to provide a copy of the retiree's Medicare card or a letter from the Social Security Administration that confirms Medicare B enrollment before eligibility for reimbursement is established. ESA tested the suggested website by attempting to pull up the records for 30 random participant retirees. Of the 30 records tested, 5 could not be found by the site. The website requires the following information to be provided: Medicare number, date of birth and zip code. If any of this information does not match, the site will not be able to locate the member's information. Staff must pull the hard-copy retiree files to obtain this information. One particular issue is that a retiree may not use the same address for County purposes, as he/she does for Medicare purposes. In addition, acceptable proof of Medicare A and B enrollment does not necessarily display the complete 10 digit Medicare number necessary for the website lookup. Therefore, a "no records found" result could either mean the individual is not eligible to Medicare or that the County simply does not have matching information, however, staff would not have any way to know which scenario is correct. When the site was able to pull up information, the message provided was "You are currently covered by your employer or union." The message appears to refer to the retiree's medical plan coverage, not Medicare enrollment. The program simply seems to verify whether the person is enrolled in a medical plan that coordinates with either Medicare A or B. Since the website does not tell you which part is being utilized, it is probably not safe to assume that the individual has Part B. Because of all of the uncertainties listed, ESA does not believe this website is an accurate resource for this purpose.

**Recommendation 1.4**

ESA-Benefits should ensure that all required documents are obtained prior to enrolling retirees for reimbursement. Required documents should include, at least, Medicare program enrollment verification and payment verification. (Priority 2) [Expected 9/30/15]

**ESA Response – Recommendation 1.4**

Concur. ESA currently ensures all required documentation is obtained prior to enrolling retirees for reimbursement. In addition, if a retiree has a non-standard enrollment, due to a higher premium, documentation of the

Medicare premium charged is required before providing a higher reimbursement rate to the retiree. The non-standard enrollment verification can be required of all retirees to establish proper payment verification.

**Recommendation 1.5**

ESA-Benefits should obtain the missing documents and files identified for the sampled items and existing population. (Priority 3) [Expected 9/30/15]

**ESA Response – Recommendation 1.5**

Concur. ESA is currently in the process of obtaining the missing documents and files that were identified as part of this audit.

**Recommendation 1.6**

ESA-Benefits management should monitor the accuracy of data entered into PeopleSoft. (Priority 1) [Expected 9/30/15]

**ESA Response – Recommendation 1.6**

Concur. Currently, the HR Support Supervisor audits staff entries for new hires and changes to employment based on ePAR records. Queries or reports will be created to assist the HR Support Supervisor with identifying retirees who should be reviewed on a random basis regarding data entry accuracy for Medicare B Reimbursement.

**Recommendation 1.7**

ESA-Benefits should study and consider the concept of uploading the information maintained on paper Kardex files to PeopleSoft. (Priority 3) [Expected 9/30/15]

**ESA Response – Recommendation 1.7**

Non-concur. Staff believes its implementation would be costly, with little derived benefit. PeopleSoft was implemented 17 years ago on March 1, 1998. All personnel transactions including hiring are recorded in PeopleSoft subsequent to that date. Employees who were hired prior to March 1, 1998 and retiring now have already met the 5 or 8 service year requirement to qualify for Medicare B Reimbursement. Because of this, the usefulness of job history contained in the Kardex files has become greatly diminished. There are approximately 3,730 active employees who were hired prior to the implementation of PeopleSoft on March 1, 1998. It is estimated that it would take 1,000 hours of staff time to update PeopleSoft with the job history contained in the Kardex file for these employees.



**Recommendation 1.8**

ESA-Benefits unit should update its standard practices and formally document the policies and procedures. (Priority 3) [Expected 12/31/15]

**ESA Response – Recommendation 1.8**

Concur. While some written policies and procedures are in place, they need to be updated and formally documented. Staff has already begun the process of setting down formal policies and procedures regarding Medicare B Reimbursement and other benefits programs.

**Recommendation 2.1**

ESA-Benefits should obtain positive confirmation to ensure that retirees enrolled for Medicare B reimbursements continue to remain eligible. The following options should be considered:

- a) Utilizing the Medicare.gov website (Home > Check Your Enrollment) to validate that retirees are actively enrolled in Medicare B. Verification should be maintained as part of the retirees' HR file.  
<https://www.medicare.gov/find-a-plan/enrollment/check-enrollment.aspx>
- b) Sending a Medicare Part B Reimbursement Application letter (positive confirmation) to retirees receiving these benefits. Due to the high volume of retirees currently enrolled for Medicare B reimbursement, management might consider incorporating a rotation approach by prioritizing retirees that are susceptible to error. Categories that are susceptible to error are those who retired prior to 1983, those who waived coverage and retirees greater in age. Either option would improve confirmation of retiree status. (Priority 1) [Expected 1/31/16]

**ESA Response – Recommendation 2.1**

Partially concur. ESA can implement sending an application or verification letter to select categories of retirees to ensure they continue to remain eligible. ESA will need to evaluate any service impacts that may occur as a result of this added work load.

**Recommendation 2.2**

ESA-Benefits should change its practices in order to prevent payments to deceased retirees and to ensure collection of overpayments. (Priority 1) [Expected 6/30/15]

**ESA Response – Recommendation 2.2**

Concur. In addition to current methods of notification regarding retiree death, ESA plans to utilize a report provided by CalPERS.

**Recommendation 2.3**

ESA-Benefits should complete a study to identify prior overpayments made and initiate collection. (Priority 2) [Expected 9/30/15]

**ESA Response – Recommendation 2.3**

Concur. ESA has already begun a study to identify prior overpayments made in order to initiate collection.

**Recommendation 2.4**

ESA-Fiscal should consider monitoring stale dated warrant monthly reports for patterns and research transactions, as needed. (Priority 3) [Expected 9/30/15]

**ESA Response – Recommendation 2.4**

Concur. ESA-Fiscal will identify Medicare B reimbursement payment warrants on the monthly stale dated warrant report and forward to ESA-Benefits. A retiree who has not cashed the warrant needs to be investigated by ESA-Benefits for possible address change, retiree being deceased, or becoming ineligible to receive Medicare B reimbursement payments.

**Recommendation 2.5**

ESA-Benefits management should monitor and oversee the accuracy of data entered into PeopleSoft. (Priority 1) [Expected 9/30/15]

**ESA Response – Recommendation 2.5**

Concur. Currently, a HR Support Supervisor audits staff entries for new hires and changes to employment based on ePAR records. Queries or reports will be created to assist the HR Supervisor with identifying retirees who should be reviewed on a random basis regarding data entry accuracy for Medicare B Reimbursement.

**Recommendation 3.1**

ESA should formalize retroactive payment policies and procedures. Topics addressed should include:

- Approval requirements by amount and approver.
- Proof of payment requirements.
- Reasons/justification for the retroactive payment.
- Pro-active monitoring procedures including identification and review of larger amounts and older transactions to identify anomalies such as a large amount or significantly delayed payment.

(Priority 2) [Expected 12/31/15]

**ESA Response – Recommendation 3.1**

Concur. While some written policies and procedures are in place, they need to be updated and formally documented. Staff has already begun the process of setting down formal policies and procedures regarding Medicare B Reimbursement and other benefits programs.

**Recommendation 3.2**

ESA-Fiscal should initiate a project with the Controller-Treasurer's Department to restrict the use of Medicare B designated vendor range (300000-399999 / vendor group "SCMB") to use by ESA only. (Priority 3) [Expected 9/30/15]

**ESA Response – Recommendation 3.2**

Concur. Countywide vendor code ranges, mentioned above, are assigned by the Controller-Treasurer's Department. ESA-Fiscal will work with Claims Unit/Controller-Treasurer's Department to establish procedures restricting the use of this vendor code range only for Medicare B reimbursement payments.

**Recommendation 4.1**

ESA-Fiscal management should enhance the quarterly Medicare B reimbursement process to ensure adequate segregation of responsibilities amongst ESA-Fiscal staff. This should entail allocating the following functions to multiple individuals:

- Preparing and comparing the reconciliation file to payment file
- Reviewing and approving the payment file, as evidenced on the Medicare B Coversheet
- Uploading the payment file to SAP
- Reconciling the SAP FI Interface Transaction Upload report to the Approved Medicare B Coversheet

(Priority 3) [Expected 12/31/15]

**ESA Response – Recommendation 4.1**

Concur. ESA-Fiscal plans to train another fiscal staff to prepare and compare the reconciliation file to the payment file for the Senior Accountant's review. The Departmental Fiscal Officer (DFO) will approve and submit the file to SAP for payment processing. The Senior Accountant will reconcile the payment data in the uploaded interface report to those in the payment file.

**Recommendation 4.2**

ESA-Fiscal management should change the order of the processing to place the approval step so that it immediately precedes transmitting the payment file to the Controller-Treasurer Department's Fiscal Services Division for processing (instead of returning it to the preparer for finalization and transmitting). (Priority 3) [Expected 3/31/15]

**ESA Response – Recommendation 4.2**

Concur. We have already implemented this recommendation in processing quarter ending December 2014 Medicare B reimbursement payments. The DFO directly authorizes ASAP staff for uploading the payment file to SAP, upon his approval of the payment file.

**Recommendation 4.3**

ESA-Fiscal management should make appropriate arrangements for warrants to be mailed directly by the Information Systems Department. (Priority 2) [Expected 3/31/15]

**ESA Response – Recommendation 4.3**

Concur. We have implemented this recommendation in processing quarter ending December 2014 Medicare B reimbursement payments. Medicare B reimbursement payment warrants are now mailed out directly to recipients by ISD upon issuance. Warrants are no longer returned to ESA for mailing.

**Recommendation 4.4**

ESA-Benefits should adopt a practice to strongly encourage retirees to receive payments electronically using the ACH system. (Priority 2) [Expected 1/1/16]

**ESA Response – Recommendation 4.4**

Concur. Staff is currently working with the Controller-Treasurer Department to include ACH as an options to both charge retirees for medical plan premiums and to pay retirees for payment programs such as the Medicare B Reimbursement and Payment In-Lieu programs.

**Recommendation 4.5**

ESA should investigate the option of replacing the current processing with an automated interface between PeopleSoft and the accounting system, thereby eliminating the manual handling of paperwork and spreadsheets. (Priority 3) [Expected 1/1/16]

**ESA Response – Recommendation 4.5**

Concur. ESA plans to coordinate with the Information Systems Department to address this need, determine feasibility and, if possible, an implementation schedule.

- c: ✓ Emily Harrison, Finance Agency Director  
Alan, Minato, Controller-Treasurer  
Rey Guillen, Employee Benefits Director  
Amy Kung, Financial and Administrative Service Manager



# County of Santa Clara

Finance Agency  
Controller-Treasurer



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April 7, 2015

TO: Rebecca Haggerty, Internal Audit Manager  
Controller-Treasurer Department

FROM: Henry Lo, Senior Accountant  
Controller-Treasurer Department

SUBJECT: Department Response to Internal Audit Report:  
Audit of the FY14 Medicare B Reimbursement Payments' Internal Controls

### **Recommendation 3.3**

The Controller-Treasurer Department should consider determining if other vendor groups should be similarly limited to avoid misuse, possibly using hard coding.  
Priority 3) [Expected 6/30/15]

### **Controller-Treasurer Response - Recommendation 3.3**

The Controller-Treasurer Department agrees with recommendation 3.3 and has already identified and requested vendor groups to be set up for hard coding.

### **Recommendation 3.4**

The Controller-Treasurer Department should review the non-Medicare B payments and issue an IRS Form 1099, if needed.  
Priority 2) [Expected 3/31/15]

### **Controller-Treasurer Response - Recommendation 3.4**

The Controller-Treasurer Department agrees with recommendation 3.4 and has issued a revised 1099 Form to the payee.

Thank you to the Internal Audit Division for the work on this project. It is much appreciated.