

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT - INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

*A Follow-up Audit to the Internal Audit Report:
2016 Workers' Compensation Medical Payments'
Internal Controls*



Assignment 10330-A
May 7, 2018

Conclusion This is a follow-up audit to the *Internal Audit Report: Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls* issued on August 18, 2017. It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee in spring 2018.

All five recommendations evaluated by the Internal Audit Division have been implemented. Therefore, follow-up to the 2016 Workers' Compensation Medical Payments' Internal Controls Audit is complete.

The initial audit included improvements in the following areas:

- Monthly reconciliation of medical payments
- Verification of services received
- Compliance with Warrant Cancellation Policy
- Increasing Automated Clearing House (ACH) Payments
- Identify business improvements

Appendix A provides description of each recommendation's implementation status.

Appendix B provides program background.

Appendix C provides audit background, objective, scope and methodology.

We appreciate the assistance of Workers' Compensation Department and Controller-Treasurer Department staffs. Their cooperation and participation led to the successful conclusion of this audit.

Signature on file

Rebecca Haggerty, Internal Audit Manager
May 7, 2018

RH

Attachments:

Appendix A, STATUS OF AUDIT RECOMMENDATIONS

Appendix B, Program Background

Appendix C, Audit Information

Management Response

Internal Audit Report: Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls

**APPENDIX A
STATUS OF AUDIT RECOMMENDATIONS
As of April 2018**

This Appendix summarizes the status of five of the nine recommendations made in the *Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls* that were selected for follow-up.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
1		Monthly reconciliation of medical payments		
1.1	2	The WCD should maintain a running list of the open reconciling items from its daily reconciliations, which should be used to prepare a monthly reconciliation between payments made in the iVOS system to the uploaded medical payments posted to the County's central accounting system and make corrections as necessary.	Implemented	Since July 2017 the WCD has maintained a running list of open reconciling items and makes corrections as necessary.
2		Verification of services received		
2.1	1	The WCD should verify with the claimant that services were received, possibly on a sample basis.	Implemented	In October to December 2017 the WCD sent 75 letters and received 41 replies, a 54.7% response rate. Of the letters received, all indicated that services were provided.
4		Compliance with Warrant Cancellation Policy		
4.1	3	The WCD should follow the C-T Department's Accounts Payable Warrant Cancellation Policy or request an exception.	Implemented	WCD is following the C-T Department's Accounts Payable Warrant Cancellation Policy.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
6		Increasing Automated Clearing House Payments		
6.1	2	The WCD should increase the usage of ACH payments, possibly to 100%.	Implemented	In fall 2017, the WCD sent letters to 75 vendors requesting the vendor to sign up for ACH and is processing the conversion to ACH as vendor responses are received.
7		Identify business improvements		
7.1	2	The WCD should track and evaluate the nature of vendor inquiries, complaints and returned warrants for opportunities to improve operations.	Implemented	WCD created a field in the iVOS system to track the nature of vendor inquires and completed an evaluation after five months.

Appendix B Program Background

The WCD administers claims for County employees injured in the course of their employment. Major services include:

- Providing accurate and timely benefits to workers injured in the course and scope of their employment.
- Providing supervisory training and claims status updates for County departments.
- Monitoring and facilitating the Medical Management component of the Program which provides medical treatments to injured employees.
- Coordinating job placements for County employees who suffered occupational injuries that temporarily limit their ability to perform their regular jobs.

APPENDIX C

Audit Information

Audit Background	The Institute of Internal Auditors' professional standards and IAD's procedures, as approved by the Board of Supervisors, require follow-up on recommendations. As such, this audit was performed to meet these requirements.
Objective	The objective of the audit was to evaluate the implementation status of the recommendations made in the <i>Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls</i> issued on August 18, 2017.
Scope	A sample of recommendations were evaluated. The scope included follow-up on five of nine recommendations made in the initial audit. Those evaluated included all categorized as Priority 1 and Priority 2 and a sample of Priority 3.
Methodology	The audit concluded in April 2018 and was conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> . A follow-up audit evaluates the progress made on recommendations and included identifying whether the implementation is properly substantiated. During a follow-up audit, IAD does not change the initial findings, recommendations, or priority levels assigned. This follow-up report was reviewed by management and their written responses are attached.

County of Santa Clara

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Department of Risk Management
Workers' Compensation Division
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May 2, 2018

To: Rebecca Haggerty
Internal Audit Manager

From: Dave Wong
Workers' Compensation Director

Subject: Response to the Internal Audit Report - A Follow-up Audit to the Internal Audit Report: 2016 Workers' Compensation Medical Payments' Internal Controls (Assignment 10330-A, May 2018)

I concur with the Internal Audit Report (A Follow-up Audit to the Internal Audit Report: 2016 Workers' Compensation Medical Payments' Internal Controls).

The facts are accurate and their report properly characterizes the current and future status of each findings and recommendation.

I would like to thank the Internal Audit Team for their services and input to our Workers' Compensation Program.

INTERNAL AUDIT REPORT

Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls



Assignment 10330
8/18/17

Conclusion

The controls over medical payments processed by Workers' Compensation Department (WCD) in the iVOS system and uploaded to the County's centralized accounting system could be stronger. It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee in the fall 2017. We identified areas of improvement that are listed below.

- Monthly reconcile medical payments.
- Verify service was received.
- Update Warrant Cancellation Policy for reissuing interfaced payments.
- Comply with Warrant Cancellation Policy.
- Coordinate recording of stale-dated warrants on a timely basis.
- Increase Automated Clearing House (ACH) payments.
- Identify business improvements from vendor inquires and return mail.

This report includes nine recommendations of which one is Priority One¹, three are Priority Two² and five are Priority Three³. The WCD and Controller-Treasurer (C-T) Department have agreed to implement all eight recommendations by November 30, 2017. The Internal Audit Division plans to perform a follow-up audit on the recommendations once implemented.

Program Background

The WCD administers claims for County employees injured in the course of their employment. Major services include:

- Providing accurate and timely benefits to workers injured in the course and scope of their employment.
- Providing supervisory training and claims status updates for County departments.
- Monitoring and facilitating the Medical Management component of the Program which provides medical treatments to injured employees.
- Coordinating job placements for County employees who suffered occupational injuries that temporarily limit their ability to perform their regular jobs.

Objective

The audit objective was to evaluate the adequacy and effectiveness of internal controls over Workers' Compensation medical payments made from their bill review system (iVOS) to the County's central accounting system (SAP) through a payment interface process and to ensure correct payments are made to the recipients on a timely basis.

¹ Priority One recommendations cover issues of federal, state and local laws, regulations, ordinances and the County Charter. In addition, this priority level can include recommendations that would or could result in significant (\$250,000 or more) increases in revenues or decreases in expenditures. This priority level also can include significant weaknesses in internal controls. Lastly, recommendations made to make significant changes in federal, state, or local policy through amendments to existing laws, regulations and policies would also be included.

² Priority Two recommendations can result in moderate (\$50,000 to \$250,000) increases in revenues or decreases in expenditures or can make changes in local policy through amendments to existing County ordinances and policies and procedures. Priority Two recommendations can also include revisions to existing departmental or program policies and procedures that could result in improved service delivery, increased operations efficiency, greater program effectiveness, improved control over the safeguarding of assets or the accuracy and completeness of financial data.

³ Priority Three recommendations would address program related policies and procedures that would result in modest improvements to service delivery, operational efficiency, or program effectiveness.

Scope

The scope included medical payments processed by WCD in the iVOS system and uploaded into the County's central accounting system for payment. The scope excluded all indemnity payments and any medical payments processed directly through the County's central accounting system.

The time period covered medical payments made during calendar year 2016 with detailed testing focused on the month of November 2016. For calendar year 2016, there were 31,669 medical payment transactions totaling \$10,816,652 processed in the iVOS system and uploaded to the County's central accounting system.

Methodology

The audit methodology included reviewing internal controls and analyzing their effectiveness in ensuring correct medical payments were made to recipients on a timely basis. From this review, a risk matrix was developed to analyze the mitigation of business risks by internal controls in place and identify audit steps to be performed. The detailed audit steps were applied to a sample of transactions selected for the month of November 2016.

This audit was included as part of the Internal Audit Division approved Annual Work Plan and concluded in June 2017. We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

A draft copy of the report was discussed with WCD and C-T prior to issuance of the final report. The departments' formal response are attached to this report.

**Audit
Background**

This audit was one of several audits performed by the Internal Audit Division to determine the adequacy and effectiveness of internal controls over payments processed outside of the County's central accounting system and subsequently uploaded in SAP to generate payments to the respective vendors.

Throughout the entire audit, WCD was consistently professional and helpful. We greatly appreciate their cooperation and support in performing this audit.

Signature on file

Rebecca Haggerty, Internal Audit Manager 
August 18, 2017

Attachment:
Management Responses

Findings and Recommendations

Findings	Recommendations
<p>1. Monthly reconcile medical payments: WCD performs a daily reconciliation of medical payments between the iVOS system and the County's central accounting system, however; WCD does not keep a running list of reconciling items to determine the difference between the medical payments processed in the iVOS system to the amount recorded in the County's central accounting system. Total annual medical payments are approximately \$10 million.</p> <p>During our analysis of one month's medical payments, November 2016, the following reconciling items were noted:</p> <ul style="list-style-type: none"> • Two payments totaling \$185.07 in the iVOS system that were not inputted in the County's central accounting system until January 2017, • Two medical payments totaling \$145.64 in the County's central accounting system that could not be easily traced to the iVOS system and • Six credit entries totaling \$8,316.19 in the iVOS system that were inputted in the County's central accounting system in October 2016 to a revenue account. <p>Although these items are explainable, routine and timely reconciliations are a significant internal control. Without a monthly detailed reconciliation of medical payments between the iVOS system and the County's centralized accounting system, it is not known if the County's central accounting system has accurate information.</p>	<p>1.1 The WCD should maintain a running list of the open reconciling items from its daily reconciliations, which should be used to prepare a monthly reconciliation between payments made in the iVOS system to the uploaded medical payments posted to the County's central accounting system and make corrections as necessary. (Priority 2) (Expected 11/30/17)</p> <p>1.2 The WCD should consider recording credit entries to the medical payments expense account instead of the revenue account. This will provide a more accurate picture of the medical expenses and make the reconciliation easier. (Priority 3) (Expected 10/31/17)</p>
<p>2. Verify Service was received: WCD does not verify whether a claimant received the services invoiced by medical providers. Verification ensures that payments are made for services that were incurred.</p>	<p>2.1 The WCD should verify with the claimant that services were received, possibly on a sample basis. (Priority 1) (Expected 10/31/17)</p> <p>2.2 The WCD should consider establishing a field in the iVOS system to assist in tracking services that were verified. (Priority 3) (Expected 10/31/17)</p>

Findings	Recommendations
<p>3. <u>Update Warrant Cancellation Policy for Reissuing Interfaced Payments:</u> The C-T Department's Accounts Payable Warrant Cancellation Policy does not address processing repayment of warrants through a payment interface system, even when the original payment was processed that way. In order to include complete data in its iVOS system, WCD reissues repayments using their iVOS system. This method permits having the complete payment history in the iVOS system. However, this is not in compliance with the C-T Department policy because the policy does not address the use of interfaces from other systems when reissuing warrants.</p> <p>It should be noted that several departments similarly use interfaces to process payments and could benefit from guidance in the C-T Department policy. We have observed this in several other audits recently performed.</p>	<p>3.1 The C-T Department should amend the Accounts Payable Warrant Cancellation Policy to allow for reissued warrants to be processed through interfaces from other systems. (Priority 3) (Expected 10/31/17)</p>
<p>4. <u>Comply with Warrant Cancellation Policy:</u> For the two areas discussed below, the C-T Department's Accounts Payable Warrant Cancellation Policy is not being followed by the WCD nor has a request for an exception been obtained.</p> <p>Policy deviations are:</p> <ul style="list-style-type: none"> a. As mentioned in Finding 3 above, the WCD reissues warrants using the interface with the iVOS system. This is currently out of compliance with the C-T policy. b. For warrants that are returned due to an incorrect address, the WCD corrects the address on the envelope and re-sends the original warrant to the correct address. However, the C-T Department policy states that the warrant should be voided, the address corrected in the County's central accounting system, and a new warrant from the central accounting system be generated and mailed to the correct address. 	<p>4.1 The WCD should follow the C-T Department's Accounts Payable Warrant Cancellation Policy or request an exception. (Priority 3) (Expected 10/31/17)</p>

Findings	Recommendations
<p>5. <u>Coordinate recordation of stale-dated warrants on a timely basis:</u> The WCD receives stale-dated warrant information monthly from the C-T Department.</p> <p>The WCD is not consistently recording stale-dated warrant information in its iVOS system. We noted 2 of 3 sampled instances where updates had not been recorded in the WCD system.</p> <p>The WCD is not timely recording transfer entries in the County's central accounting system. We noted entries totaling \$6,915.04 had not been recorded during July-December 2016. The WCD planned to record the entries in June 2017, prior to the fiscal year end. Regular recording in both systems should provide an accurate reflection of the net unprocessed stale-dated warrant liability and expenses in each system.</p>	<p>5.1 Monthly, the WCD should process stale-dated warrants into both the iVOS system and the County's central accounting system. (Priority 3) (Expected 10/31/17)</p>
<p>6. <u>Increase Automated Clearing house (ACH) payments:</u> There is an opportunity to lower payment processing costs by converting vendors from paper warrants to ACH transfer payments. In 2016, approximately 49% (15,677 of 31,669) of the payments were paper warrants. For payments under \$20.00, approximately 74% (764 of 1,040) were paper warrants. Using ACH reduces transaction costs (printing and mailing checks, bank reconciliations, lost checks, etc.) and delivers the payment to the vendors faster. ACH also prevents lost paper warrants and the additional cost associated with reissuing a paper warrant.</p>	<p>6.1 The WCD should increase the usage of ACH payments, possibly to 100%. (Priority 2) (Expected 10/31/17)</p>
<p>7. <u>Identify business improvements from vendor inquiries and return mail:</u> There is an opportunity to improve operations by tracking and evaluating vendor inquiries and returned warrants to identify process improvements. Currently, there is no such tracking or evaluation.</p>	<p>7.1 The WCD should track and evaluate the nature of vendor inquiries, complaints and returned warrants for opportunities to improve operations. (Priority 2) (Expected 10/31/17)</p>

County of Santa Clara

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DATE: August 11, 2017

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

FROM: David Wong, Workers' Compensation Director
Risk Management Department, Office of the County Executive

SUBJECT: Response to Internal Audit Report: Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls

Recommendation 1.1

The WCD should maintain a running list of the open reconciling items from its daily reconciliations, which should be used to prepare a monthly reconciliation between payment made in iVOS to the uploaded medical payments posted to the County's central accounting system and make corrections as necessary.
(Priority 2) (Expected 10/31/17)

Response

Concur. In addition to our current daily reconciliations between iVOS and SAP payment interface, CEO Fiscal will create a running open reconciliation items list. This will strengthen the monitoring and clearing of the outstanding reconciliation items. We will also summarize our reconciliation on a monthly basis. We are requesting the expected due date be revised to 11/30/2017 due to prior fiscal deadlines that require CEO Fiscal attention.

Recommendation 1.2

The WCD should consider recording credit entries to the medical payments expense account instead of the revenue account. This will provide a more accurate picture of the medical expenses and make the reconciliation easier.
(Priority 3) (Expected 10/31/17)

Response

Concur. CEO Fiscal unit will record those revenue entries as credit to expense. Total amount recorded as revenue in FY17 is \$51,902. (Average to \$4,325/month).

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian
County Executive: Jeffrey V. Smith

Recommendation 2.1

The WCD should verify with the claimant that services were received, possibly on a sample basis.

(Priority 1) (Expected 10/31/17)

Response

Concur. The WCD will implement a 6 month pilot program to verify with the claimant to that medical services were received. The results of this pilot program will be evaluated with Internal Audit at the end of the 6 month pilot program.

Recommendation 2.2

The WCD should consider establishing a field in the iVOS system to assist in tracking services that were verified.

(Priority 3) (Expected 10/31/17)

Response

Concur. The WCD will establish a tracking mechanism to track services that were verified.

Recommendation 3.1

The C-T Department should amend the Accounts Payable Warrant Cancellation Policy to allow for reissued warrants to be processed through interfaces from other systems.

(Priority 3) (Expected 10/31/17)

Response

Concur. The C-T Department should respond to this recommendation.

Recommendation 4.1

The WCD should follow the C-T Department's Accounts Payable Warrant Cancellation Policy or request an exception.

(Priority 3) (Expected 10/31/17)

Response

Concur. The WCD will follow the C-T Department's Accounts Payable Warrant Cancellation Policy or request an exception.

Recommendation 5.1

Monthly, the WCD should process stale-dated warrants into both the vendor's bill review system and the County's central accounting system.

(Priority 3) (Expected 10/31/17)

Response

Concur. The CEO Fiscal Unit will record stale dated warrants in IVOS on a monthly basis. Total FY17 stale dated warrants were \$15,004.13, and was recorded in IVOS by the end of the Fiscal Year. This is an average of \$1,250 per month.

Recommendation 6.1

The WCD should increase the usage of ACH payments, possibly to 100%.

(Priority 2) (Expected 10/31/17)

Response

Concur. The WCD will contact all vendors that do not have ACH and recommend a conversion to ACH.

Recommendation 7.1

The WCD should track and evaluate the nature of vendor inquiries, complaints and returned warrants for opportunities to improve operations.

(Priority 2) (Expected 10/31/17)

Response

Concur. The WCD agrees to implement a 6 month pilot program to track vendor inquiries, complaints and returned warrants as it relates to payments. The results of this pilot program will be evaluated with Internal Audit at the end of the 6 month pilot program.

County of Santa Clara


Finance Agency
Controller-Treasurer

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DATE: August 17, 2017

TO: Rebecca Haggerty, Internal Audit Manager

FROM: George P. Doorley, Assistant Controller-Treasurer 

SUBJECT: **Response to Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls**

Thank you for the opportunity to review and respond to the Internal Audit Division's (IAD) Audit of the 2016 Workers' Compensation Medical Payments' Internal Controls. While the focus of the audit was on practices within the WCD, one recommendation (3.1) was directed to the Controller-Treasurer Department. We agree with the recommendation and provide our formal response below.

Recommendation 3.1 The Controller-Treasurer (C-T) Department should amend the Accounts Payable Warrant Cancellation Policy to allow for reissued warrants to be processed through interfaces from other systems. (Priority 3) [Expected 10/31/17]

Response Concur. Completed. The C-T Department has updated the policy on Canceling and Reissuing a Lost or Damaged Warrant to include language as follows. "Any document created to originate the warrant has been canceled in the operating department's interface system."

We appreciate the efforts and good work of the IAD on this project and believe they will assist County operations by improving internal control procedures.