

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

**AUDITOR/CONTROLLER** • 222 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

**RECORDER • COUNTY CLERK** • 222 West Hospitality Lane, First Floor  
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-9050

**LARRY WALKER**  
Auditor/Controller-Recorder  
County Clerk

**ELIZABETH A. STARBUCK, CGFM**  
Assistant Auditor/Controller-Recorder  
Assistant County Clerk

October 6, 2009

**Laurie Milhiser**, Director of Risk Management  
222 W. Hospitality Lane Third Floor  
San Bernardino, CA 92415-0016

**SUBJECT: AUDIT OF RISK MANAGEMENT'S CLAIMS PROCESSING OVER  
LIABILITY AND WORKERS' COMPENSATION CLAIMS**

## Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter and the Memorandum of Understanding (MOU), dated August 23, 1991, we have completed a compliance audit of Risk Management's claims processing over Liability and Worker's Compensation claims. Our audit was conducted in accordance with the standards developed by the Institute of Internal Auditors.

## Background

The purpose of this audit was to determine if control activities used by Risk Management to process Liability and Workers' Compensation claim payments by electronic data interchange with the County's Financial Accounting System (FAS) were adequate to allow the Auditor/Controller-Recorder's Controller Division to process those claims payments without supporting documentation. Our audit was limited to the system of internal controls and procedures related to Liability and Workers' Compensation claims payments for the period July 1, 2007 through June 30, 2008. We tested 120 Liability and 119 Workers' Compensation claims for compliance with department policies, procedures, and the Memorandum of Understanding dated August 23, 1991.

## Conclusion

In our opinion, the internal controls over the Liability and Workers' Compensation claims payments are adequate, except for the conditions we noted that requires management attention. Our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. The conditions noted that requires management's attention are discussed below.

We sent a draft report to the department on September 10, 2009 and discussed our observations with management on October 6, 2009. Management's responses have not been altered in any way and are included below as they were provided to us.

### **Findings and Recommendations**

#### **Finding: Reconciliation controls could be improved**

Current standard practice of Risk Management titled "Reconciling FAS claim payments with ACS claim payments", requires a monthly reconciliation between FAS and ACS along with certain documentation requirements. These practices require that the Fiscal Assistant complete the reconciliation by the third week of the second month following the end of the month to be reconciled which would equate to around 1 ½ months. In addition, the Accounting Technician and the Accountant need to have reviewed the reconciliation by the end of the second month. The supervisor needs to also verify that the reconciliation is complete.

During our testing of the reconciliations, we noted that reconciliations were not being prepared or reviewed within 2 ½ months. Also, two reconciliations were not accurate. One reconciliation failed to include an amount of \$10.77 that had been reported in expenditure code 2625 - Medical Appliances according to FAS. Another reconciliation had reported the wrong dollar amount that had been reported in expenditure code 2555 - Documentation Expense of \$15,087 instead of \$15,666 according to FAS. In addition, staff does not verify the beginning balances of each month compared to the ending balances of the previous month, they only account for the differences between the activity in FAS and ACS for each month.

Due to the implementation of the new claim's system, staff's time has been restricted. These internal controls weaknesses can result in errors or omissions not being discovered in a timely manner, or not being discovered at all.

**Recommendation:** Follow the current standard practice of performing and reviewing reconciliations within 1 ½ months. In addition, we recommend to extend the allowable time to 2 ½ months for the supervisor's review. Furthermore, reconciliations for funds with greater activity should be performed first, since these funds carry a higher risk of misstatement. In addition, ensure staff is reconciling each month's accurate running balances for ACS and FAS.

**Management's Response:** We understand the importance of preparing and reviewing each month's reconciliation in a timely manner. During fiscal year 2007-08 the fiscal section experienced an increased workload as it worked to convert to a new automated claims management system, iVOS (Valley Oak Systems). This was a major transition for the department as Risk Management's prior claims system, GenSource, had been used since 1985. Risk Management went online with iVOS in June 2008.

Unfortunately, once we converted to iVOS, we discovered that we could no longer make payments to contracted vendors through the AP interface and we would now have to make those payments manually. Processing the significant amount of payments to contracted vendors has further increased the workload in the fiscal section. The increased workload along with staff reductions have made producing timely reconciliations challenging.

There have been some positive steps made in the reconciliation process. For FY 2008-09 we have re-designed the format of the reconciliation based on the recommendations of the Internal Audit section including verifying that the beginning balances of each month compares to the ending balances of the previous month. We have re-designed the format of the report generated from the claims system (iVOS) to match more closely the format of the report generated from FAS. We have also created a report that will help us to reconcile County Counsel bills which is a significant portion of the overall monthly reconciliation. In addition, because of the increased workload put on the fiscal assistants due to having to prepare more payment documents manually and consequently having to enter more adjustments manually, we have moved the task of preparing the monthly reconciliations to the Accounting Technician. The Accountant will review the reconciliations and the Deputy Director will perform a second review of the reconciliations.

**Auditor's Response:** Risk Management's response appears to be taking steps to improve the reconciliation process based on our recommendations provided.

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

The following criteria is used when processing claims:

Per the Current Standard Practice of Risk Management titled "Claims Processing without Supporting documentation", the Risk Management staff should stamp the invoice and input the following information after the FAS download is executed: Tran # or doc #, Batch #, Date Sent, Verified by, and Claim #.

During the test work, auditor observed some control weaknesses over claims processing.

1. The required stamp on the invoice which ensures FAS download of payment was executed was missing for two claims.
2. Three claim payments which had the required stamp didn't have the necessary information documented on the stamp.

3. One claim payment was underpaid by \$45.00. The adjuster had added a series of invoices for a claimant and instead of inputting \$50.00, the adjuster inputted \$5.00. Therefore, the claim payment total was miscalculated by \$45.00.

Due to the high volume of claims processed, sometime staff oversight occurs. Control weaknesses over claims processing may cause errors, omissions, or even fraudulent activity to occur.

**Recommendation:** Staff should be following the Standard Practice for Claims Processing more diligently to reduce the likelihood of errors being made.

**Management's Response:** Staff has been made aware of the importance of thoroughly completing the processing of all invoices after payment has been completed in iVOS. Due to the increased volume of bills processed, events like this occur, however, staff will make sure every bill is correctly stamped and all the information is accurately filled. Adjusting staff is aware of the importance of accuracy in the input of amounts for payment. Although fiscal staff routinely double checks all invoices and makes sure they are entered correctly, some errors occurs when the bill is originally entered in the system.

**Auditor's Response:** Risk Management's response appears to be taking steps to improve the controls over claims processing based on our recommendations provided.

**Finding: A death audit report should be obtained to verify cycle payments are not being paid out to deceased recipients.**

A death audit report is a good control over preventing overpayment of resources. Presently, the Department does not obtain a death audit report to verify cycle payments are not being paid out to deceased recipients. Making payments to deceased recipients is exhausting resources that can be used elsewhere. In addition, once notice of death is obtained the period of cycle payments made between actual death and notice may not be refunded. Therefore, a loss of valuable resources could occur.

**Recommendation:** 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](http://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.

**Management's Response:** We currently use <http://ssdi.genealogy.rootsweb.com/cgi-bin/ssdi.cgi> to check the status of our Life Pension and ongoing Permanent Disability claims. This is a free website. The County has a policy for all County Departments to notify Risk Management of all Deaths.

**Auditor's Response:** Risk Management is continuing with their current procedure of identifying potential death recipients and is assuming the risk of not implementing our recommendations.

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

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By: \_\_\_\_\_  
Howard Ochi, CPA  
Chief Deputy Auditor  
Internal Audits Section

Quarterly copies to:

County Administrative Officer  
Board of Supervisors (5)  
Grand Jury (2)

Audit File (3)

Date Report Distributed: 10/9/09

LDW:HMO:akc:mah