Risk Management

Internal Audit

November 2016

Bernalillo County Internal Audit
Risk Management

Executive Summary

SUMMARY OF PROCEDURES

REDW performed internal audit procedures over the claims process at Risk Management including submission, processing, payment, and close out of worker's compensation, 1st party automobile and property, and tort claims. Our internal audit also evaluated the completeness and accuracy of Risk Management's communication of summarized claims detail to the other County departments.

We performed the following procedures:

- Obtained an understanding of the process for communicating claims information to County departments and determined if the communication was accurate and effective.

- Tested a sample of worker's compensation and 1st party auto and property claims paid to determine if the respective claim detail was accurately reflected in the Labor Soft system.

- Tested a sample of 1st party auto and property claims paid to determine if any payments appeared to be duplicates.

- Tested a sample of 1st party auto and property claims paid to determine if the:

  o procurement policy was followed.

  o amount paid according to the invoice and payment detail agreed to the estimate or supporting adjustment.

  o work performed in the claim payment agreed to the incident report and other supporting documentation in the claims packet.

- Tested a sample of worker's compensation claim payments and to determine if they were included in the batch payment and were accurately reported in Labor Soft.

- For worker's compensation claims tested which were not included in Labor Soft, we tested supporting documentation to ensure the amount paid was for a true County claim and the amount paid appeared to be below the deductible according to the NMAC policy.

Tested a sample of tort claim payments to determine if the payment amount was supported, the amount requested appeared reasonable, and the payment amount was calculated based on the current year deductible.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

As a result of our testing, the following significant high and moderate risk observations were identified:

1) ***Labor Soft data was incomplete*** – Worker's compensation and 1st party auto and property selections were not accurately included in Labor Soft.

2) ***Invoice detail was not sufficient for tort claims*** – The County was not receiving appropriate detailed invoices from NMAC prior to processing them for payment.

3) ***There were no back-ups for key roles or department cross-training*** – Employees performing key job responsibilities did not have designated back-ups and there was no formal documentation or cross-training for key responsibilities and roles.

4) ***Worker's compensation payments were not supported by original claim support*** – Worker's compensation claim details were not kept in Labor Soft and Risk Management was unable to provide support for one claim which was included in a batch payment.

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Further detail of our purpose, objectives, scope, and procedures are included in the internal audit report.

We received excellent cooperation and assistance from the Departments during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
January 17, 2017

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Risk Management

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Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating selected claims processing procedures performed at Risk Management including the submission, processing, payment, and close out of worker's compensation, 1st party automobile and property, and tort claims. We also evaluated the completeness and accuracy of Risk Management's communication of summarized claims detail to the other County departments. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on November 10, 2016, and fieldwork began the week of November 14, 2016. An exit conference was held on January 3, 2017.

PURPOSE AND OBJECTIVES

The County participates in the New Mexico Association of Counties (NMAC) insurance pool for insurance coverage over incidents related to worker's compensation, 1st party auto and property and torts. Risk Management is responsible for the processing and payment of all claims for these incidents throughout the County. Risk Management tracks the claims based on the initial forms received from individual employees and the data received from NMAC. Our internal audit was designed to evaluate the key business processes around the processing and tracking of these claims in place at Risk Management, as well as the process for communicating claims detail to department management.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations, we interviewed the following personnel:

- Destry Hunt, Policy and Planning Administrator

- Bruce Lambert, Quality Assurance Auditor

- Gina Ortega, Claims Specialist

- Christine Chavez, Claims Specialist

- Veronica Espinosa, Accountant

In order to gain an understanding of the processes, we read relevant portions of:

- Bernalillo County User Department Procurement Handbook, effective November 2015

- Process instructions for 1st party auto and property claims

- Process instructions for workers compensation claims

- Risk Management Administrative Instructions

We performed the following testwork:

Completeness of Communication to Departments: Obtained an understanding of the process for communicating claims information to County departments. We evaluated the process for extracting claims data from Labor Soft and NMAC and presenting a summarized format in the Claims Dashboard. We observed the process performed at Risk Management to ensure that the claims data presented in the Claims Dashboard was complete. Additionally, we traced five claims from Labor Soft through to the Claims Dashboard in order to determine that the information extracted from Labor Soft and NMAC appeared to be accurately transmitted to the Claims Dashboard.

Accuracy of Claims Data in Labor Soft: Obtained a listing from the SAP system of all worker's compensation and 1st party auto and property claims paid from October 1, 2015 through September 30, 2016. We selected a total of 57 payments and tested if the respective claim detail was accurately reflected in Labor Soft from the original claim initiation form.

Duplicate Payments: Performed data analytics over the population of 1st party auto and property claims paid from October 1, 2015 through September 30, 2016, to determine if any payments appeared to be duplicates. We selected a sample of 47 accounts payable transactions, focusing on transactions identified in the analysis and tested to determine if:

- The payment appeared reasonable based on the type of claim.

- The invoice support for the claim existed and agreed to the amount paid.

Claim Procurement Process: Obtained an understanding of the processes and requirements for procurement of 1st party auto and property claims. Using the same sample of 47 1st party auto and property claims above, tested to determine if:

- The procurement policy was followed for each claim payment (best obtainable price, quotations for invoices up to $20,000, minimum of three quotations for $20,000 to $60,000).

- The amount paid according to the invoice and payment detail agreed to the estimate or supporting adjustment.

- The work performed in the claim payment agreed to the incident report and other supporting documentation in the claims packet.

Payments for Worker's Compensation Claims: Obtained a listing from SAP of all worker's compensation claims paid from October 1, 2015 through September 30, 2016. Selected a sample of 10 claim payments and tested to determine if the claim was included in the batch payment and was accurately reported in Labor Soft. For any claims which were not included in Labor Soft, we tested to determine if:

- There was documentation to ensure the amount paid was for a true County claim.

- The amount paid appeared to be below the deductible according to the NMAC policy.

Payments for Tort Claims: Obtained a listing from SAP of all tort claims paid from October 1, 2015 through September 30, 2016. Selected a sample of 25 payments to determine if:

- The payment amount was supported by settlement information and detailed invoices.

- The amount requested appeared reasonable by evaluating if the amount was equal to or less than the total settlement and if the payment detail appeared to be applicable to the nature of the claim.

- Payment amount was calculated using the correct deductible.

- Risk Management received and reviewed the appropriate supporting documentation for the amount paid to NMAC prior to approving the payment.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

As a result of our testing, REDW identified the following observations:

1) *Labor Soft data was incomplete*

Risk Management utilizes Labor Soft to track worker's compensation and 1st party auto and property claims for the County. The information in Labor Soft includes a combination of manual entries made by claims analysts at Risk Management during claim initiation, and updated payment information received from NMAC. Labor Soft should accurately reflect the claim information for worker's compensation and 1st party auto and property. Our testing identified that:

- 31 of the 167 total claims tested were not included in Labor Soft.

- 15 of 120 worker's compensation claims did not have a claim number for identification and could not be tested for validity or accuracy.

- 16 of 47 1st party auto and property claims tested were unable to be identified in Labor Soft because the claim number was not included in the SAP payment information.

Additionally, for the 16 1st party auto and property samples identified above, we were unable to test the procurement procedures because the underlying support was not able to be found without a Labor Soft claim number.

Potential Risk: High – If the data included in Labor Soft is not complete or accurate, the County does not have the ability to determine if they are paying the appropriate amount for claims or if the claim is a true County payment.

Recommendation: Risk Management should evaluate the process for inputting and updating information in Labor Soft, including the comparison tool, from NMAC and determine if the current process is effective and if improvements could be made to increase the accuracy of the data. Risk Management should also work with Accounts Payable to determine best practices for processing accounts payable transactions. This will ensure SAP transactions can be easily traced to Labor Soft.

Management Response: Management feels that two separate observations have been identified and combined to comprise Observation #1 of this report. Therefore, Management will provide two responses to Observation #1:

- Risk Management concurs with the auditors' recommendation and will evaluate the process for inputting and updating information into Labor Soft via the comparison tool and Risk Management will determine if the current process is effective and if improvements can be made to increase the accuracy of the data. To be completed by June 30, 2017.

    o **Issue**: Claims are updated in Labor Soft using a "comparison" tool that assists Risk Management in syncing the NMAC claims data (IVOS) with the County's claims data (Labor Soft). There was an error in the coding of this comparison tool that prevented it from assisting Risk Management in syncing all relevant data in IVOS with Labor Soft. Claims that had been reopened after July 2015 were not displaying in the tool.

    o **Solution**: The error has been fixed, and the missing data has been added to Labor Soft (completed December 2016).

- Risk Management concurs with the auditors' recommendation and will work with the Accounts Payable Section to determine best practices for processing accounts payable transactions. Risk Management will work with Accounts Payable to ensure that SAP transactions can be easily traced to Labor Soft. To be completed by June 30, 2017.

2) *Invoice detail was not sufficient for tort claims*

Invoices approved for payment should provide adequate detail to allow the approver to determine if the amounts requested are reasonable for the services received on the claim. Our testing determined that 25 of 25 tort payments tested did not have appropriate documentation from NMAC prior to review and approval of the payment. The invoices provided to Risk Management did not include an indication of the settlement amount or specific detail of the charges. After requesting and obtaining the detailed support from NMAC, 4 of 25 tested, did not have settlement information to determine if the payment requested appeared reasonable or within the settlement threshold.

Potential Risk: High – If the County does not receive detailed invoices from NMAC, the approver cannot perform appropriate reviews to determine if the payments are appropriate.

Recommendation: The County should work with NMAC to determine if a more detailed invoice with supporting documentation can be provided. The County should request that NMAC invoices include the claim, the total settlement amount, and the corresponding detail for expenses that are included in the payment request. This will allow Risk Management to appropriately review the payment requests to ensure the amount is reasonable based on the settlement and includes only costs associated with the claim.

Management Response: Risk Management concurs with the auditors' recommendation and will work with NMAC to determine if a more detailed invoice, along with the supporting documentation, can be provided prior to payment. To be completed by April 30, 2017.

3)   *There were no back-ups for key roles or department cross-training*

Employees performing key responsibilities have knowledge of business processes that other employees do not. A back-up employee should be designated and trained to ensure there is a continuity of these business processes in the event an employee is unable to perform their job responsibilities. Our testing determined that 4 of 4 employees interviewed did not have assigned back-ups who could perform key responsibilities if needed. Additionally, there were no cross-training initiatives implemented to ensure business continuity throughout the department.

Potential Risk: Moderate – If an individual performing key responsibilities is absent or unable to perform these responsibilities, and a back-up is not available or trained, the County may lose production time, miss important deadlines or create errors in the process that may go unnoticed.

Recommendation: Risk Management should evaluate all business processes and determine key roles which require assignment of a back-up employee. Risk Management should assign back-ups to all key roles identified and those back-ups should be trained to be able to perform the job responsibilities. This process should be formally documented, so that in the event that the designated employee cannot perform their job responsibilities, there can be continuity of the processes without losing valuable production time or missing important deadlines. Cross-training would also assist with leveling out employee workloads during busy periods.

Management Response: Risk Management concurs with the auditors' recommendations and will:

- Evaluate all business processes in order to determine key roles which require assignment of a back-up employee. To be completed by June 30, 2017.

- Assign back-ups to all key roles identified and those back-ups shall be trained to be able to perform the job responsibilities. To be completed by June 30, 2017.

- Review and update its process maps to ensure that those key roles and responsibilities identified are fully documented so that in the event that the designated employee cannot perform their job responsibilities, there can be continuity of the processes without losing valuable production time or missing important deadlines. To be completed by June 30, 2017.

- Evaluate all business processes in order to identify opportunities for changes within the department, as well as within the roles and responsibilities of its employees, that will create efficiencies and improve the delivery of services. To be completed by June 30, 2017.

4)   *Worker's compensation payments were not supported by original claim support*

Worker's compensation claims are submitted to Risk Management by the employee filing the claim. Claims Specialist at Risk Management are responsible for inputting the worker's compensation information into Labor Soft and verifying the claim is supported. 15 of 120 worker's compensation claims were not included in Labor Soft. Additionally, 1 of those 15 claims did not have any supporting detail to ensure the claim was truly a County worker's compensation claim.

Potential Risk: Moderate – If Risk Management does not review worker's compensation invoice detail to ensure that all claims included are approved County claims, there is a risk that the County is inappropriately paying for non-County claims.

Recommendation: All worker's compensation claims should be entered into Labor Soft when the claim is received, along with any additional supporting documentation (e.g. notice of accident, form E-1, and NMAC payment information). Risk Management should review the worker's compensation invoices to ensure the claim is approved by the County and included in Labor Soft prior to approval for payment. Additionally, Risk Management should perform an analysis to determine if there are worker's compensation claims that are provided by NMAC, but not currently included in Labor Soft and update the database to accurately reflect each claim's data. Accurate Labor Soft data and attaching supporting documentation within Labor Soft will allow Risk Management to perform an appropriate level of review and ensure that payments made are supported.

Management Response: Management feels that two separate observations have been identified and combined to comprise Observation #4 of this report. Therefore, Management will provide two responses to Observation #4:

- Regarding Labor Soft not matching NMAC data, Risk Management concurs with the auditors' recommendation.
  - **Issue:** Claims are updated in Labor Soft using a comparison tool that assists Risk Management in syncing the NMAC claims data (IVOS) with the County's claims data (Labor Soft). There was an error in the coding of this comparison tool that prevented it from assisting Risk Management in syncing all relevant data in IVOS with Labor Soft. Specifically, claims that had been reopened after July 2015 were not displaying in the tool.
  - **Solution:** That error has been fixed, and the missing data has been added to Labor Soft. (completed December 2016)

- Regarding supporting documentation not existing for claims paid by Risk Management, Risk Management concurs with the auditors' recommendation. There are two types of supporting documentation for worker's compensation claims as pertains to this observation:
  - **Issue:** One type of supporting documentation are those initial forms completed by the employee and supervisor that are then forwarded to NMAC for processing; the form E-1 and the Notice of Accident. Although in most cases the claims within Labor Soft contain the uploaded E-1 and Notice of Accident, claims that precede the implementation of Labor Soft and were subsequently re-opened for any reason were also input into Labor Soft using information stored in the legacy claims software previously employed by Risk Management, Compliance Suite, without uploading the initial forms stored within Compliance Suite for each of the reopened claims.
  - **Solution:** Risk Management will ensure that any claim contained within Labor Soft will contain the uploaded E-1 and Notice of Accident. To be completed by July 30, 2017.
  - **Issue:** Another type of supporting documentation are those documents supporting NMAC's request for reimbursement for services already directed by NMAC; Currently the County does not receive a detail of these services, but rather a summary of services for every claim requiring any type of reimbursement.

- **Solution:** Risk Management will work with NMAC to obtain detailed documentation supporting any request for reimbursement by NMAC. Risk Management can then upload the detailed documentation supporting the reimbursement requests to their corresponding claims within Labor Soft. To be completed by April 30, 2017.

PROCESS IMPROVEMENT OPPORTUNITIES

1) SAP Training

During our testing, we identified multiple Risk Management employees who did not have access to SAP, but would benefit from having view only access to track the status of procurement approvals and claims payment details. Additionally, we observed that there were areas where technical SAP skills could be improved, including the processing of payments, and the ability to extract reports.

Recommendation: Risk Management should identify all individuals within the department who may benefit from view only access to SAP and request access. Risk Management should work with accounting to set up a formal training over SAP which can include:

- View-only capabilities within SAP. These can be tailored to include t-codes and search functions specific to the needs of the Risk Management employees.

- Best practices for processing purchase orders and accounts payable transactions to reduce the risk of errors and correcting transactions.

- Best practices which can be implemented to allow Risk Management to trace payment transactions to Labor Soft or NMAC claims. This should include a discussion on batch payments and the information required to appropriately tie SAP to Labor Soft.

- Report writing functions which can include queries specific to the needs of Risk Management (e.g. payments by claim number).

2) Procurement authorization levels

The Director of Risk Management must approve all shopping carts and, based on inquiries, procurement requests were often backlogged for approval due to the volume of the requests required by the nature of Risk Management's business processes. These delays in the approval process items resulted in County departments not receiving the resources needed timely.

Recommendation: Risk Management should consider working with procurement to determine if additional approvers could be added to the system. This will allow the Director of Risk Management to delegate the approval of lower dollar amounts to individuals with primary knowledge of the incident. With a lower volume of transactions needing Director approval, the Director of Risk Management should be able to focus on more critical department needs. Additionally, on a periodic basis, the Director of Risk Management may also review procurement requests in summary to determine if any requests appear unreasonable.

3) Labor Soft database evaluation

Risk Management uses Labor Soft as a database for 1st party auto and property and worker's compensation claims. Although this is not a claims management system, Risk Management has tailored the application to reflect NMAC data and provide a depository for supporting claims

documentation. Our testing identified that Labor Soft is not being used consistently for these claims, and the process for mirroring NMAC data is not always accurate.

Recommendation: Risk Management should evaluate the Labor Soft program to determine the purpose and key functions which are the most beneficial to the department. Examples of Labor Soft functions may include: tracking of claims payments, detail of information included in the claim, support documentation repositories, etc. From the evaluation, Risk Management should determine if the system serves that purpose and implement any process changes necessary to align the business needs with the data included in Labor Soft.

4) *Communication to departments*

A key function of Risk Management is the ability to collect and analyze claims data throughout the County and to provide this information to each department. Our testing determined that Risk Management has created a Claims Dashboard to summarize the department claim information; however, the dashboard was not being communicated to the departments at the time of our testing. Additionally, we were unable to determine if all transactions were accurately captured in the Claim Dashboard due to the complex process used in extracting and compiling the claims information into the dashboard.

Recommendation: Risk Management should consider surveying department management who would be receiving the claims information to determine an appropriate format and content that would be useful. Based on the feedback received, Risk Management should develop a communication process to inform departments on a recurring basis of their incident activities. Additionally, if the Claims Dashboard is used in these communications, there should be formal controls implemented to ensure all data is captured from Labor Soft and NMAC completely and accurately.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved minor observations with management and received excellent cooperation and assistance from Departments during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
January 17, 2017