

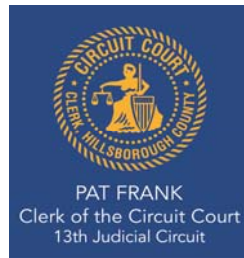
**COUNTY AUDIT**

**HILLSBOROUGH COUNTY, FLORIDA**

**HUMAN RESOURCES – WORKERS’ COMPENSATION**

**REPORT # 318**

**DECEMBER 29, 2016**



December 29, 2016

The Honorable Stacy R. White, Chairman  
The Honorable Victor D. Crist  
The Honorable Ken Hagan  
The Honorable Al Higginbotham  
The Honorable Pat Kemp  
The Honorable Lesley "Les" Miller  
The Honorable Sandra L. Murman

Dear Chairman White and Commissioners:

The Audit Team performed an audit of the Human Resources – Workers' Compensation (Audit Report # 318, dated December 29, 2016). Responses to the Audit Team's recommendations were received from the Managing Director of Human Resources and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Managing Director and personnel of Human Resources during this audit.

Sincerely,

Steve Hooper, CIA, CGAP, CCSA, CFE  
Director of County Audit

CC: Mike Merrill, County Administrator  
Eric Johnson, Assistant County Administrator  
Beverly Waldron, Managing Director, Human Resources  
Kevin Brickey, Management & Budget Office  
Pat Frank, Clerk of the Circuit Court  
Dan Klein, Chief of Staff, Clerk of the Circuit Court  
Rick VanArsdall, Chief Deputy, Finance

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## EXECUTIVE SUMMARY

### BACKGROUND INFORMATION

Hillsborough County maintains internal service funds as permitted by Florida law. To remain self-insured for workers' compensation claims, this self-insurance covers workers' compensation claims up to a maximum of \$650,000 per occurrence (except firefighters who have a maximum of \$1,000,000 per occurrence).

The Board of County Commissioners (BOCC) has authorized a commercial third-party administrator, Gallagher Bassett Services, Inc. (TPA), to administer the County's workers' compensation claim payments. The contract calls for the designation of a project manager to act as the duly authorized representative of the BOCC during the contract period. This responsibility has been delegated to the County's Human Resources Department (HR).

The initial contract term was for a two (2) year period with a notice to proceed date of March 1, 2012. At the sole option of the County, the contract could be extended for up to three (3) additional one year periods at the same terms and conditions. The County has renewed the contract for the three periods and the current contract is good through February 28, 2017.

### OBJECTIVE

The objective of the audit was to determine whether or not the TPA has adequate and effective controls in place to administer the County's workers' compensation claims in compliance with the governing contract and applicable laws. Specifically, the Audit Team determined whether or not:

- The TPA is in compliance with the contract to provide claims administration services for medical only and indemnity claims.
- Invoices submitted by the TPA to the County are sufficiently supported and are in compliance with the contract.

### SCOPE

The audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The audit period covered claims activity for claims reported or claims denied from March 1, 2015 through April 30, 2016. The audit period for claims administration invoices was from March 1, 2012 through June 7, 2016.

## SCOPE LIMITATION

Although the Health Insurance Portability and Accountability Act (HIPAA) is not applicable to worker's compensation claims, the Audit Team's unsupervised access to the TPA's claims system and records was denied by HR based on its understanding of the HIPPA privacy and security compliance requirements. As a result, the Audit Team had to rely on the Project Manager's access to the TPA's claim system and her schedule to perform audit testing.

## OVERALL EVALUATION

Human Resources staff, as well as staff from the Management and Budget Department, were responsive to the Audit Team's inquiries and provided thorough information when requested. Data and other information were provided in a prompt and courteous manner. The Audit Team found staff to be knowledgeable, dedicated, and receptive to the Audit Team's suggestions for improvements.

The following table summarizes the audit comments and corresponding cross references to the page number where the audit comment details can be found in this Report.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Opportunities exist to improve contract compliance over claims administration services for medical only and indemnity claims.	4
2	Opportunities exist to improve controls over the claims administration services invoice review and approval process.	7

## OPINION

The overall control environment relative to managing compliance with the workers' compensation contract and associated processes is at a formal (defined) maturity level. This means that management has developed processes and controls which reasonably ensure claims activity is adequately controlled and in compliance with the contract. In addition, controls over the review of claims administration invoices are adequate and effective. Addressing the opportunities identified in this Report will enhance the control structure over contract compliance and invoicing processes.

The exit conference was held on November 17, 2016.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

**AUDITED BY**

Steve Hooper, CIA, CGAP, CCSA, CFE, Director of County Audit

Margaret Brown, CIA, Audit Manager

Greg McCullough, CPA, CIA, CFE, Senior Internal Auditor

Richelle Anderson, Internal Auditor II

Lovonia Scott, CGAP, Internal Auditor II

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## AUDIT COMMENTS & RECOMMENDATIONS

### AUDIT COMMENT 1

#### **Opportunities exist to improve contract compliance over claims administration services for medical only and indemnity claims.**

The objective was to determine whether or not the TPA is in compliance with the contract to provide claims administration services for medical only and indemnity claims (lost time and/or impairment benefits). Medical only refers to a worker's compensation claim where medical expense has occurred. Indemnity refers to a lost time or impairment benefit claim where the worker was unable to fulfill their daily work responsibilities while recovering from their work related injury.

The Audit Team identified the contract requirements and the internal control processes implemented by the TPA to administer the claims processing for the County's worker's compensation program. Based on this information, the Audit Team selected fifteen specific contract requirements as criteria for testing. The established criteria included claim approvals and denials, specified supervisory reviews, claim documentation, required wage statements, required notices, billing code updates, etc.

The Audit Team used information from the TPA's claim file system (*RISX-FACS*) for testing of the established criteria.

#### **Medical Only and Indemnity Claims Testing:**

There were 492 workers' compensation claims reported to the TPA from March 1, 2015, to April 30, 2016. The Audit Team selected a test sample of 30 claims. The selected sample included 26 claims labeled as medical only and 4 claims labeled as indemnity (lost time).

#### Results of Testing

Eleven of the 15 established criteria were successfully verified by the Audit Team for the claims tested. Four of the established criteria contained errors within the Audit Team's selected sample:

- Two claims were missing a claim note or a repetitive payment setup.
- Fourteen indemnity claims did not have the required wage information provided to the TPA within the 14 day specified time period.
- One indemnity claim did not have a properly completed and signed wage statement.
- Seven indemnity claims did not contain sufficient evidence of the contract specified TPA supervisory review.

In addition, the Audit Team noted during testing that seven of the 26 “medical only” claims should have been updated to the billing code “lost time” in a timelier manner. Timing of the billing code updates ranged from 20 to 149 days. Failing to update the billing code when a claim moves from a medical only status to a lost-time status could result in inaccurate billing by the TPA and inaccurate payment by the County, since the claim administration fees are different for medical only and lost time claims.

### **Denied Claims Testing:**

From the 21 denied claims filed during the period March 1, 2015 to April 30, 2016, The Audit Team selected five claims for testing. The objective of this test was to determine whether or not denied claims were properly approved, appropriately supported, and no payments were made to providers after the denial date.

#### Results of Testing

- All five claims tested had no payments made after the date of denial of the claim.
- Three claims did not contain evidence for the approval of denial by both the Project Manager and the Senior Assistant County Attorney.
- One claim file did not contain the required Division of Workers’ Compensation denial form.

### **Testing of Lost Time Claims that Were Identified as Closed:**

For the period March 1, 2015 to April 30, 2016, 21 lost time claims had been closed. The Audit Team reviewed 9 of these claims to determine whether or not lost time payments were made to the claimant after he/she returned to work and the claim was closed.

#### Results of Testing

- No claimants received lost time payments after returning to work. No exceptions noted.
- The Audit Team identified one Lost Time check payment for \$517.80 that was made payable directly to an employee rather than to Hillsborough County as directed by a union collective bargaining agreement and the TPA’s Service Instructions. This employee received his/her regular salary from the County and a lost time payment from the TPA. The Project Manager stated she has contacted the TPA’s adjuster to obtain reimbursement from the employee.

### **RECOMMENDATION**

To more effectively monitor and ensure compliance with the contract for workers’ compensation claims administration, Human Resource (HR) management should consider:



- Establishing a monitoring control to ensure a completed and signed *Wage Statement Form* is sent to the TPA within 14 days of employer's knowledge of an indemnity case. This will enable the TPA to have the supporting records to prepare accurate and timely payments and to maintain the records necessary for compliance with the contract.
- Establishing a control to ensure the TPA adds documentation of the Project Manager and Senior Assistant County Attorney approvals for claim denial.
- Establishing a control to ensure the TPA adds the completed denial form to the claim file in the TPA's system to support the denial.
- Following up with the TPA to ensure reimbursement is received for the Lost Time payment paid to the County employee. In addition, HR management should consider establishing a control to prevent this from occurring or detect this type of error on a timelier basis.

### ***CLIENT RESPONSE***

*Concur*

### ***CORRECTIVE ACTION PLAN***

*A wage statement spreadsheet has been developed to document and track the wage statement request date, completion date, and sent date to ensure the wage statements are sent to the TPA timely.*

*The project manager will review the claim notes to ensure the approvals for denial of a claim are documented in the claim file as well as to ensure the DWC-12 form (denial form) is attached to the claim file.*

*Gallagher Bassett has sent 3 letters to the employee for repayment. The project manager contacted the employee and was told he could not afford to repay until after Christmas. The project manager will follow-up on the reimbursement of the indemnity check and if payment is not received, obtain the repayment from Gallagher Bassett for their error.*

*Going forward, the project manager will review the mailing address of every Fire Rescue indemnity check for accuracy before it is issued.*

### ***TARGET COMPLETION DATE:***

*12/19/16*

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**AUDIT COMMENT 2****Opportunities exist to improve controls over the claims administration services invoice review and approval process.**

The objective was to determine whether or not invoices submitted for claims administration services by the TPA were sufficiently supported and in compliance with the contract.

The TPA invoices the County for claims administration services. The fees are billed on a per claim basis depending on two levels of claims - medical only or indemnity. The contract requires the Project Manager to approve (or deny) the invoice within 15 days after receipt and to make payment within 30 days of approval.

The Audit Team identified 19 invoices paid for claims administration services since the contract inception date of March 1, 2012. The invoice dates ranged from May 31, 2013 to August 24, 2015. The Audit Team selected 10 invoices and tested for compliance with the contract. The Audit Team selected 3 random claim numbers from each of the 10 invoices (30 total claims) and traced them to the TPA's claims system to verify: 1) existence of the claim; 2) accuracy of the claim number; 3) existence of the First Notice of Injury Form; 4) claimant name; and 5) claim type.

**Results of Testing**

For all ten invoices tested, claim rates agreed with the contract's claim rates, contained sufficient documentation to support the invoice's quantity of claims, and were mathematically accurate based on the Audit Team's recalculations. Two of the ten invoices tested (20%) were sufficiently supported to reflect the Project Manager's approval for payment. There was no evidence of approval for the remaining 8 invoices (80%). As a result, the Audit Team was able to verify that only two invoices were approved and paid timely.

The 30 sampled claim numbers selected from the invoices were successfully traced to the TPA's claims system, verifying existence of the claim, accuracy of the claim number referenced, claimant name, claim type, and the existence of the First Notice of Injury Form.

The Audit Team also reviewed the contract with the TPA to determine whether or not the frequency of invoicing for claims administration was specified. The original contract is silent as to the frequency of invoicing. The second Administrative Renewal document (for the period March 1, 2015 through February 29, 2016) contained language addressing the frequency of invoicing. In the Billing and Payment Terms paragraph, there is a statement that reads that "*Fees will be billed quarterly during the calendar year.*" The last invoice received from the TPA, at the time of testing in July 2016, was dated August 24, 2015. Therefore, the TPA has not complied with the frequency statement incorporated in the second Administrative Renewal document.

**RECOMMENDATION**

Good business practice dictates that contract agreements include the frequency or timing of invoices to be submitted. Establishing the timing of contract invoices in a contract allows management to more efficiently manage the related business process of reviewing and approving the contract invoices for payment. To ensure invoices submitted to Hillsborough County by the TPA are sufficiently supported and are in compliance with the contract, consideration should be given to:

- Ensuring the Hillsborough County Project Manager's written signature, indication of approval, and approval date is on the face sheet of the invoice once reviewed and approved to document evidence that this task was performed. Documenting this on the face sheet of the invoice that is processed for payment would assist in determining compliance with the contract if questions arise regarding the timing of approval and/or payment to the contractor and would become part of the record of the invoice paid.
- Determining the desired frequency (or timing) of invoice submission by the contractor for claims administration services and ensuring that the contract reflects the desired frequency/timing.

**CLIENT RESPONSE**

*Concur*

**CORRECTIVE ACTION PLAN**

*The Project Manager will sign, date, and write approval on each invoice.*

*The TPA will submit invoices every 6 months. This contract expires on 2/28/17. Future contracts or modifications will state the frequency/timing of the invoices.*

**TARGET COMPLETION DATE**

*12/19/16*