



Cobb County...Expect the Best!

INTERNAL AUDIT DEPARTMENT

Report Number: 2019-003

***FINAL REPORT – Review of the Control Activities over
Funds Expended under the Workers’ Compensation
Plan***

June 21, 2019

***Latona Thomas, CPA, Director
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COBB COUNTY INTERNAL AUDIT

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Director

June 21, 2019

MEMORANDUM

TO: Rob Hosack, County Manager

FROM: Latona Thomas, CPA, Director 

SUBJECT: **FINAL Report** – Review of the Control Activities over Funds Expended under the Workers' Compensation Plan

Attached for your review and comments is the subject audit report. The original objective of this review was to determine if the Third-Party Administrator (TPA) of the Cobb County (the County) Workers' Compensation Plan is administering the plan designs as intended or mandated by Georgia State Law, in compliance with the agreement terms and conditions, and that County funds were expended properly and in a timely manner. Based on the results of preliminary survey procedures, we revised¹ this project objective and judgmentally postponed the component of the objective designed to facilitate a co-sourced audit of the TPA services over Workers' Compensation claims. As such, this report reflects our review of whether adequate control activities exist to ensure that County funds were expended properly and in a timely manner.

Impact on the Governance of Cobb County

The recommendations, when implemented, will strengthen the controls over the accountability of over \$3.3 million² of Workers' Compensation Plan funds expended through or approved by the Human Resources Department (HR) annually. County leadership and citizens can be assured that the Workers' Compensation Plan funds are handled responsibly and that the administration process is transparent, effective, and efficiently managed.

¹ See 'Revised Project Objective' discussion on Page 3.

² Based on 5-year average annually (FY2014-FY2018). See Table 1 on Page 3.

Executive Summary

We found that HR has processes and procedures in place to address County funds expended under the Workers' Compensation Plan. We found that funds were expended properly except in an instance of a claims overpayment of \$22,981. We also found that County funds were expended timely, except for 44% of the TPA payments and the excess insurance premium policy renewals for FY2017 and FY2018. In addition, we found that the processes and procedures within the Workers' Compensation Plan administration could be strengthened and/or improved in the areas of financial transactions and contract management practices. We also noted a control weakness in the County's Electronic Funds Transfer (EFT) payment process that will be discussed and presented in a supplemental letter report.

Recommendations

We made five recommendations to address the weaknesses in HR's internal controls over the Workers' Compensation Plan payments. Recommendations will address the following issues noted:

- The proper safeguarding of employee eligibility information;
- Assessing whether potentially sensitive employee information should be redacted and/or retained in HR prior to being disseminated for payment;
- Revising written procedures to ensure completeness and current applicability, claims and administrative fees are processed consistently, proper monitoring controls exist, and that the roles and responsibilities are clearly delineated;
- Designating a position within HR with the responsibility of completing a periodic reconciliation of Workers' Compensation Plan financial transactions; and
- Ensuring that HR contract management practices follow County guidance and that vendor payments are paid timely in a consistent manner.

Responses

The Human Resources Director provided a response to our draft report and concurred with each of the five recommendations. The complete responses to the draft report are included in Appendix VI. We will perform a follow-up on corrective actions in six months from the date of this report. A copy of this report will be distributed to those affected by the report recommendations. Please contact me at (770)528-2559, or David Murry, Internal Auditor II, at 770-528-2557, if you have questions.

Background

Overview of Cobb County Workers' Compensation Plan

The Workers' Compensation Plan is a part of the Cobb County's (the County) self-insured health benefits program, which has been in existence since October 1, 1985. The County is self-insured up to \$650,000 per occurrence for workers' compensation, and amounts exceeding this are covered by an excess workers' compensation insurance policy.

The County's Workers' Compensation Plan is administered in accordance with the State of Georgia Workers' Compensation Act³, which provides workers in the State of Georgia with certain rights and responsibilities if injured on the job. The Workers' Compensation Plan is administered and monitored⁴ by the Human Resources (HR) Department, with funds disbursed through the Finance Department.

Third Party Administrator (TPA) Agreement

The County has contracted with PMA Management Corp. (PMA) under a third-party claims administration agreement (TPA Contract) to provide claims handling and adjustment services for all Qualified Claims. Qualified Claims per the TPA Contract include "any Lost Time Claim, Medical Only Claim, or Record Only Claim occurring within the term of this Agreement and any Takeover Claim that PMA agrees to service under this Agreement". Adjustment services includes Allocated Loss Adjustment Expense. Below are definitions of the claims and adjustments as noted in the TPA Contract:

- Lost Time Claim – "any timely reported workers' compensation claim where the injured employee will likely be entitled to medical benefits and has lost or may lose time from work or will submit or has submitted a claim for indemnity benefits".
- Medical Only Claim – "any timely reported workers' compensation claim involving an injured employee who is or may be entitled to medical benefits but is not likely to lose time from work or submit a claim for indemnity benefits".
- Record Only Claim – "any timely reported workers' compensation injury or accident specifically designated by Client⁵ to be Record Only, and not otherwise classified by PMA as a Lost Time Claim or Medical Only Claim".
- Takeover Claim – "any open claim which has been: (1) administered by Client or Client's third party administrator prior to the inception of this Agreement; and (2) subsequently transferred to PMA for servicing on or after the inception of this Agreement".
- Allocated Loss Adjustment Expense (ALAE) – "any cost or expense incurred by PMA in connection with the administration, investigation, adjustment or defense of claims on behalf of Client".

³ Official Code of Georgia Annotated (O.C.G.A.) 34-9-1, et seq., as noted in the County's Workers' Compensation Policy.

⁴ The monitoring activity by HR included validating employee eligibility.

⁵ Cobb County Government [NOTE: Added by Internal Audit for clarification.]

The initial TPA Contract was October 1, 2016 through September 30, 2017, with the option of two 1-year term renewals. The current TPA Contract ends effective September 30, 2019. As part of the TPA Contract with PMA, a non-interest-bearing checking account (PMA payment account) was established in PMA’s name, for the purposes of administering and paying Qualified Claims and ALAE in a timely manner. The PMA payment account was initially funded in the amount of \$180,000⁶, and is replenished by the County through the settlement of semi-monthly invoice statements from PMA based on the total amounts of payments made. In April 2017, the payment account balance was increased by \$50,000, to account for the volume of claims transactions and to ensure timely payments.

Plan Revenue

The Workers’ Compensation Plan is funded on the County’s fiscal year (FY) from October through September from two major revenue sources: interfund transfers revenue from County operating funds that have workers’ compensation exposure and pool allocated interest income⁷. For FY2018, the interfund transfers revenue and pool allocated interest income was \$3,440,204 and \$63,626, respectively.

Plan Expenses

During the FY2018, the County paid the following expenses on behalf of the Workers’ Compensation Plan:

Professional services fees ⁸	\$ 205,393
Claims and claims handling fees ⁹	\$ 2,658,526
Excess insurance policy premiums ¹⁰	\$ 313,837
Administrative expenses ¹¹	<u>\$ 25,979</u>
Total Workers’ Compensation Plan expenses ¹²	<u>\$ 3,203,735</u>

Plan revenue and expense transactions are tracked within the Worker’s Compensation Fund. The Workers’ Compensation Fund is a part of the County’s Claims Fund¹³.

Five-Year Trend Analysis

On the next page is the five-year trend analysis for the Workers’ Compensation Plan. The five-year average for expenses was approximately \$3.3 million versus \$3.2 million for revenues.

⁶ Per the PMA agreement, this amount is “equal to three months estimated claims payments and ALAE”.

⁷ Pool allocated income is the interest earnings from cash on hand and investments that is allocated to each County fund that participates in the Local Government Investment Pool (LGIP), as administered by the State of Georgia.

⁸ Professional services fees include the annual assessment to the Georgia Subsequent Injury Trust Fund (SITF), brokerage/consulting fees, an additional excess insurance policy premium amount, and legal fees.

⁹ Claims handling service fees to date total \$69,055. [NOTE: This amount does not reflect any additional payments resulting from the year-end actual versus estimate reconciliation].

¹⁰ Excess insurance policy premium for October 1, 2017 through October 1, 2018.

¹¹ Administrative expenses are expenditures for administrative support services (indirect cost) by the General Fund charged to the Workers’ Compensation Fund.

¹² This amount does not include includes a FY2017 expense of \$79 noted in the accounting journal.

¹³ The Claims Funds are Internal Service Funds used to account for the financial activity associated with the County’s Medical/Dental, Workers’ Compensation and Casualty/Liability Funds.

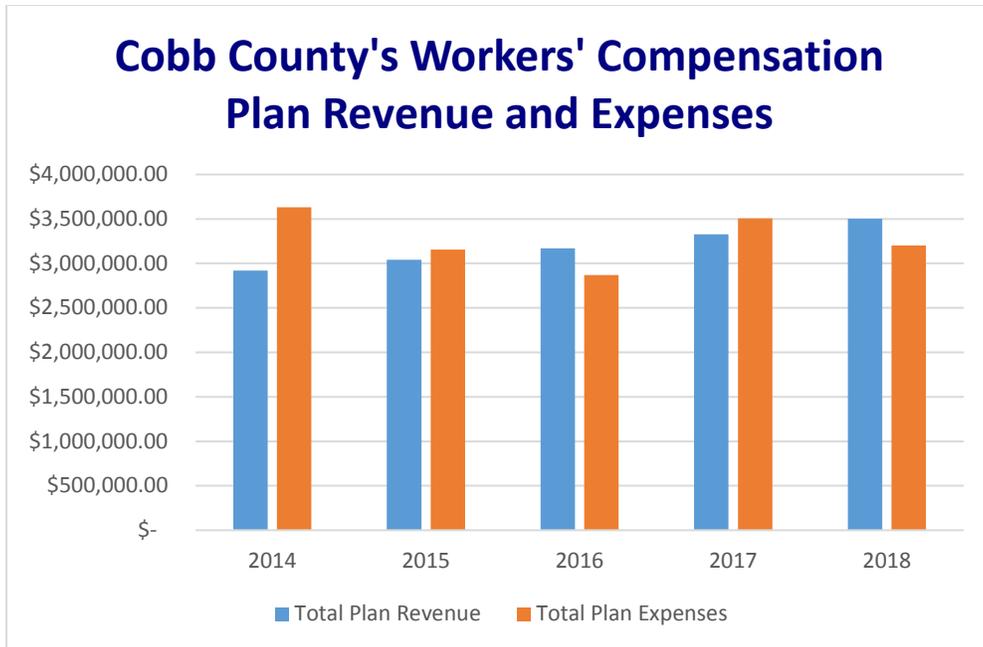


Table 1 – Source: Cobb County CGI Advantage Financial System.

Revised Project Objective

During our preliminary survey, we reviewed the TPA Contract provisions, discussed the timing of the contract renewal process, and evaluated the internal department resources needed to facilitate and oversee the external consultant contract. We determined that the timing of the external consultant audit results would conflict with the upcoming procurement solicitation for new TPA services. We also noted that the current TPA Contract did not include an audit clause, which is used to summarize the roles, responsibilities, notification required, restrictions, limitations, timing and frequency of audits, and costs¹⁴ associated with performing a claims audit. The lack of an audit clause being included in the original TPA Contract would require individual coordination between the County and TPA to document the expectations of a claims audit into a written contract. In addition, we found that the Internal Audit Department’s available resources were insufficient to facilitate the procurement process for external consultants and to oversee the execution of the consultant audit services. As such, we judgmentally postponed the component of the objective designed to facilitate a co-sourced audit of the TPA services over Workers’ Compensation claims. This postponed objective will be conducted in our next audit plan cycle and the results included in a separate report. Thus, this report detailed the procedures performed and conclusions reached in our review of whether adequate control activities exist to ensure that County funds were expended properly and in a timely manner.

The scope of our review focused on the financial transactions of the Workers’ Compensation Plan for FY2017 and FY2018 through August 2018¹⁵, unless otherwise referenced. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix III.

¹⁴ TPA audit clauses allow vendors to reserve the right to charge a fee to the County for the expenditure of time by the TPA’s employees to complete a claims audit.

¹⁵ Represents the date the project objective was revised.

Results of Review

Our revised objective was to determine if adequate control activities exist to ensure that County funds were expended properly and in a timely manner. During the preliminary survey phase of our audit project, we reviewed the TPA arrangement between the County and PMA; conducted interviews with key personnel in the HR and Finance Departments that perform functions related to the Workers' Compensation Plan process; performed an analysis of the TPA Contract's performance guarantee¹⁶; performed various analyses of financial reports downloaded from the County's financial system; and scheduled and analyzed PMA invoices paid by HR. We also physically observed the process used by HR to validate and approve invoices and reconciled all Workers' Compensation transactions for the period October 2016 through August 2018.

We found that HR has processes and procedures in place to address County funds expended under the Workers' Compensation Plan. We found that funds were expended properly except in an instance of a claims overpayment of \$22,981¹⁷. We also found that County funds were expended timely, except for 44% of the TPA payments and the excess insurance premium policy renewals for FY2017 and FY2018. In addition, we found that the processes and procedures within the Workers' Compensation Plan administration could be strengthened and/or improved in the areas of financial transactions and contract management practices. We also noted a control weakness in the County's EFT payment process that will be discussed and presented in a supplemental letter report.

Control Weaknesses Over the Workers' Compensation Plan Financial Transactions Needs to be Strengthened

During our preliminary survey, we noted control weaknesses in the Workers' Compensation Plan financial transaction process and procedures that included inadequate safeguards over employee eligibility information, inconsistencies in processing claims and administrative fees, and inadequate monitoring of transactions and related accounting records. As a result, the controls over financial transactions need to be strengthened.

Inadequate Safeguards over Employee Eligibility Information

During our review, we noted inadequate safeguards over employee eligibility information. HR keeps a manual record, a Microsoft Excel spreadsheet, to track employees receiving Workers' Compensation Plan benefits. Employees are manually added to the spreadsheet upon receipt of the required County Workers' Compensation Plan documents. The spreadsheet is then used to validate employee eligibility and Workers' Compensation claims, as presented in PMA's semi-monthly invoice statements for reimbursement. We found that that the Excel spreadsheet is located on a shared drive in the HR Department, accessible to all HR employees, and is not system or password protected.

¹⁶ PMA's performance guarantee 'put a portion of its claims fees at risk to assure it delivers the most effective program'. [Source: TPA Contract, Exhibit A, Page 17]

¹⁷ See 'Payment Preparation/Authorization' section on Page 6 for further discussion.

Best practices require that all manual spreadsheets be system or password protected with limited access, periodically validated by a separate person, and periodically evaluated for continued applicability, effectiveness, and efficiency. Unprotected spreadsheets can be modified and/or manipulated without knowledge by the primary user and thus, result in TPA invoices being paid based on inaccurate and or incomplete information. As such, additional safeguards and controls are needed over the manual spreadsheets used to track and validate employee eligibility.

We also noted that potentially sensitive employee information is being disseminated with the vendor payment authorization memorandum. The vendor check registers are forwarded to the Finance Department and each contains detailed employee information (i.e. name, type of claims, third-party vendor payee, etc.). Best practices require that potentially sensitive or confidential employee information should be properly safeguarded, retained, and made available to other employees based on job responsibilities and functions. The lack of adequate safeguards over employee information could result in non-compliance with HIPAA¹⁸ or the misuse of employee information.

Inconsistencies in Processing Claims and Administrative Fees

We noted inconsistencies in the payment preparation (request and review of employee eligibility) and authorization of PMA invoices of claims and administrative fees. We reviewed and compared 55 payment authorization memorandums¹⁹ and corresponding vendor payments to the vendor invoice statements for the period of October 2016 through August 2018, to identify evidence of review prior to the authorization and disbursements of Workers' Compensation funds. In addition, these invoices were also reviewed for compliance with the TPA Contract. See sections 'Additional Control Activities are Needed over Contract Management' on Page 9, for further discussions on contract compliance.

Evidence of Eligibility Review/Verification

In 11% of the payment authorization memorandums, we noted no written evidence where the eligibility of employees and claim types had been verified on the vendor invoice statements prior to the preparation of the payment authorization memorandums. Current internal procedures and best practices require that evidence of verification is documented via the initials and date of the HR Specialist on the vendor invoice statements and subsequently approved by a separate individual. In these referenced instances, we found that the initials and date of the HR Specialist had been excluded. As such, we were unable to determine if the referenced vendor invoice statements had been verified to ensure that only valid employees are listed on the vendor's check register and that the Workers' Compensation claims types agree to internal County documentation. Inconsistencies in the verification control activity could result in workers' compensation claims being paid in error. Having signatures/initials and dates on a vendor invoice serves as evidence that the transactions are valid, accurate, compliant with the department's established internal control procedures, and that adequate segregation of duties exists.

¹⁸ Health Insurance Portability and Accountability Act of 1996.

¹⁹ A payment authorization memorandum is a document created and used by HR to authorize the Finance Department to disburse payments to settle vendor invoice statements.

Payment Preparation/Authorization

We noted that in 13% of the payment authorization memorandums, the invoice number used on the payment authorization memorandums did not agree to the vendor invoice number on the vendor invoice statement. Errors noted included duplicate and/or incorrect transposed invoice numbers. HR written procedures indicate that claim payments should be reviewed for accuracy, and the payment authorization memorandums be prepared based on the vendor invoice statement information and subsequently approved by a separate individual. HR's inconsistent workflow in this process resulted in an overpayment mentioned below. The use of inaccurate vendor invoice statement numbers increases the risk of duplicate payments and the inability to track and monitor vendor payments.

We found an instance where the County overpaid a vendor invoice statement by \$22,981. Based on the vendor invoice statement, the original amount due was revised to account for a prepayment, and a revised vendor invoice statement was sent to the HR Department; however, the payment authorization memorandum was prepared, approved, and paid based on the original amount due. This inconsistency represents a breakdown in the review control activity. The overpayment was discussed with HR staff, who then confirmed with the vendor for validation, and subsequently recovered from a future vendor invoice statement by offsetting the amount due.

HR should ensure that eligibility of employees and claim types are signed/initialed and dated as evidence of review, and that payment authorization requests are consistently agreed to vendor invoices and supporting documents for completeness, accuracy, and in accordance with the TPA Contract prior to approval for payment.

Inadequate Monitoring of Transactions and Related Accounting Records

We found that the Workers' Compensation Plan transactions are not being monitoring and reconciled on a periodic basis to ensure the transactions are complete, accurate, properly recorded in the County's financial system, and paid in accordance with the TPA Contract. Staff within both HR and Finance Departments perform various functions within the Workers' Compensation Fund. HR is responsible for managing the employee eligibility, claims and administrative fees of the Plan. Finance is responsible for processing vendor payments and facilitating other Plan activities. However, no one periodically monitors or reconciles all the Workers' Compensation Plan financial transactions. Once payment authorization memorandums are submitted to the Finance Department, no subsequent review is completed to ensure vendor payments are properly recorded. Vendor payment histories are also not easily identifiable within the County's financial system. In addition, we noted that no control activity exists to reconcile all balance sheet account transactions to the various revenue and expenditure object codes postings for completeness and validity in accordance with the Workers' Compensation Plan, and to ensure the Workers' Compensation Fund maintains its financial integrity.

We independently reconciled all Workers' Compensation Plan transactions for the period October 2016 through August 2018, to include a reconciliation of vendor invoice statements based on the TPA Contract. We found erroneous expenditure posting codes and reconciling items where the supporting documentation was not readily available. We found that \$194,705 of TPA administrative fees in both FY2017 and FY2018 were incorrectly posted as claims instead of professional services. These erroneous posting did not impact the County's overall financial reporting, but it can impact budget analyses and other business decisions.

We also found reconciling items such as year-end closing transactions, interest income sweeps, refunds, and reserve transfers. No reconciliation was performed where these reconciling items were identified, researched, and the validity and appropriateness to the Workers' Compensation Plan determined with the supporting documents maintained. While we had to perform additional procedures to substantiate the validity of transactions, we noted that the information should have been readily available.

Best practices require a periodic reconciliation of transactions to identify any unusual activities that might be caused by fraud or accounting errors. Adequate monitoring controls over the Workers' Compensation Plan transactions can reduce the risk of balance sheet account errors, fraud, loss, and other misappropriation of County assets. This process allows HR to provide assurance that the Workers' Compensation Plan is operating as intended and only include valid transactions.

Recommendations

The Human Resources Director or designee should:

Recommendation 1: Ensure manual spreadsheets include system or password protection with limited access to Human Resources employees based on their roles and responsibilities within the department. Spreadsheets should be periodically validated for accuracy, by an individual independent of the primary users and reviewed for efficiency and continued applicability.

Auditee Response: **Concur.** The Compensation & Benefits Manager and staff will review this process to make appropriate changes for process to be efficient utilizing resources available and ensuring access is secure to those who need to have access. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.

Recommendation 2: Review the current process for submitting approved vendor check registers to the Finance Department and assess whether the employee information noted in the PMA payment register should be redacted to remove potentially sensitive employee information prior to forwarding for payment. This assessment should also include whether the detailed payment register should be retained in Human Resources and only the summary page forwarded to the Finance Department for payment.

Auditee Response: **Concur.** The Human Resources Manager for Systems & Records Division and staff will review this process for submitting approved vendor check registers to the Finance Department and assess whether the employee information noted in the PMA payment register should be redacted to remove potentially sensitive employee information prior to forwarding for payment or only submitting cover sheet for payment. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by August 1, 2019.

Recommendation 3: Review department's written procedures for completeness and current applicability based on a workflow that eliminates or mitigates the risks of processing claims and administrative fees. The results should be used as a basis to revise the written procedures to ensure that the roles and responsibilities are clearly delineated within the eligibility review/verification, payment preparation/authorization, and approval of Workers' Compensation Plan claims and administrative fees (in accordance with contract agreements and department expectations). Evidence of all reviews and approvals should be documented and maintained in an organized manner. The updated procedures should also include the detailed process of the review of vendor invoice statements and the need to check for accuracy through the recalculation of the vendor invoice statement totals.

Auditee Response: **Concur.** The Human Resources Manager for Systems & Records Division; the Compensation & Benefits Manager and HR staff will review department's written procedures for completeness and current applicability based on a workflow that eliminates or mitigates the risks of processing claims and administrative fees. The results should be used as a basis to revise the written procedures to ensure that the roles and responsibilities are clearly delineated within the eligibility review/verification, payment preparation/authorization, and approval of Workers' Compensation Plan claims and administrative fees (in accordance with contract agreements and department expectations). Evidence of all reviews and approvals will be documented and maintained in an organized manner. The updated procedures will also include the detailed process of the review of vendor invoice statements and the need to check for accuracy through the recalculation of the vendor invoice statement totals. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.

Recommendation 4: Designate a position within Human Resources with the responsibility of completing a periodic reconciliation of Workers' Compensation Plan financial transactions. This reconciliation should ensure that the transactions are periodically monitored for completeness, accuracy, is properly posted to the correct expenditure object code, and in accordance with contractual requirements. Human Resources Management should also ensure that segregation of duties exists between the reconciliation process and other responsibilities.

Auditee Response: **Concur.** The Human Resources Manager for Systems & Records Division; the Compensation & Benefits Manager will review and revise processes including designation of a position within Human Resources with the responsibility of completing a periodic reconciliation of Workers' Compensation Plan financial transactions. This reconciliation will ensure that the transactions are periodically monitored for completeness, accuracy, and properly posted to the correct expenditure object code, and in accordance with contractual requirements. Human Resources Management will also ensure that segregation of duties exists between the reconciliation process and other responsibilities. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.

Additional Control Activities are Needed over Contract Management

Every department in the County is responsible for establishing effective contract management practices and designating staff responsible for overseeing contract management. Contract management is critical to ensuring that both parties agree and adhere to all the terms and conditions detailed within contracts. Our review determined that current control activities over contract management practices were not adequate to ensure that:

- Contract supporting documents and revisions are properly maintained and readily available;
- Vendor invoice statements are paid in a timely manner; and
- Evidence of the reconciliation of the actual to estimated contracted service fee is adequately maintained.

Contract Supporting Documents and Revisions were not Readily Available

During our review, we noted the TPA Contract supporting documents and revisions were not readily available for review upon request. We requested copies of the PMA quarterly performance measure audits²⁰, but the reports had not been distributed to the County's insurance brokers as indicated in the TPA Contract nor submitted to the HR Department. After subsequent receipt of the reports from PMA, we recalculated the compliance score based on contract performance measures and found a potential penalty of \$5,000 due from PMA. We discussed the potential penalty with HR and found that the performance measures audit reports did not correspond with the TPA Contract but included changes in the method of the 'Reserves' calculation of the PMA performance measures. The 'Reserves'²¹ calculation of the PMA performance measures were changed to a point calculation in year one of the contract and changed to a split percentage in year two. These changes were ratified via email correspondence sent to HR, but the documentation was neither properly maintained with the original contract nor readily available upon request. Upon receipt of this information, we recalculated the compliance score and noted that no penalty was due. Maintaining documents in an organized and readily available and having a formalized process of reviewing contract and documenting amendments would mitigate the risk of contract non-compliance and increase efficiencies.

Vendor Invoice Statements were not Paid in a Timely Manner

We noted that invoice statements for two vendors were not paid timely. Claims and administrative fees, in accordance with the TPA Contract and the excess insurance policy premiums, were not paid in a timely manner.

²⁰ A performance measures audit is an audit of a determined number of randomly selected Indemnity Claims that is completed quarterly by PMA's Quality Assurance Specialist. [Source: TPA Contract, Exhibit A, Page 17]

²¹ An estimated amount established for each indemnity claim within a stated timeframe of receipt of first notice of loss or claim.

Claims and Administrative Fees

We reviewed vendor invoice statements between October 2016 through August 2018 for compliance with the TPA Contract and found that 24 out of 55 (44%) vendor invoices were not paid in a timely manner. Section 10.b and 11.a-f of the TPA Contract requires that claims and administrative fees are paid within 10 and 30 business days, respectively, of receipt of the vendor invoice statement.

We noted the days to process PMA invoices by the County ranged from 3 to 29 business days and on an average of 12 business days from the receipt of the vendor invoice statement. We found no internal performance metrics regarding the expected length of time to perform the eligibility verification, payment authorization, and payment processing within the County departments.

The absence of performance metrics resulted in untimely payments and non-compliance with the PMA agreement. Per Section 10.c of contractual agreement, if payments are not made in a timely manner to replenish the bank account established and monitored by PMA, PMA has the right to cease paying indemnity and medical expenses on all claims. Payment must be made in a timely manner to mitigate the risk of contract non-compliance and prevent any negative impact on employee claims.

Excess insurance policy premiums

We also noted that the excess insurance premium policies for both FY2017 and FY2018 were not paid timely. Per the respective vendor invoices, premiums were due and payable on the effective date of October 1, 2016 and 2017, respectively. In each instance, the vendor invoices were paid more than 30²² days after the invoice date. We found that the FY2017 vendor invoice was dated August 26, 2016 and paid on October 6, 2016; and the FY2018 vendor invoice was dated September 27, 2017 and paid on November 9, 2017. Inadequate contract management practices over the excess insurance premium policy could result in a policy cancellation and have a negative financial impact if a policy event occurred during the cancellation period. HR should implement effective contract management control activities to ensure that the excess insurance policy is renewed timely each year.

Lack of Evidence of the Reconciliation of the Actual Versus Estimated Agreement Service Fees

We noted no evidence of validation by the HR Department of Workers' Compensation claims reconciliation prepared by PMA, which details PMA's actual versus estimated fees for TPA services charged to the County. During our review, we requested evidence to support the County's validation of the reconciliation prepared by the TPA. HR provided no internal written evidence that the reconciliation provided by PMA, outlining total service fees had been validated for accuracy, documented, and retained.

As part of the TPA Contract, the County paid estimated payments based upon the projected number of new and takeover claims to be serviced by PMA. At the end of each term year, PMA calculated the actual fees for services based on the number of new claims serviced and bills the County any additional fees. The absence or lack of evidence of review by a department of any third party prepared documentation that the County relies on, can result in errors or fraud going unnoticed.

²² The actual date received by HR was not documented and readily available with the invoice and supporting documents.

Recommendation

The Human Resources Director or designee should:

Recommendation 5: Ensure that the position responsible for the department's contract management activities follow County guidance. Responsibilities should include, but not be limited to ensuring that:

- Contract and amendments are documented in clear and formalized writing, and duly endorsed by both parties to confirm understanding of the mutual obligations of the contract and/or amendments, to include, but not be limited to decisions regarding contract extensions, cancellation, or non-renewals.
- Contract specifications are properly implemented including the timely payment of vendor invoice statements.
- Evidence of review and recalculation of contract supporting documents are properly organized and readily available upon request.

Auditee Response: **Concur.** The Human Resources Manager for Systems & Records Division will ensure that the position responsible for the department's contract management activities follow County guidelines. Responsibilities should include, but not be limited to ensuring that:

- Contract and amendments are documented in clear and formalized writing, and duly endorsed by both parties to confirm understanding of the mutual obligations of the contract and/or amendments, to include, but not be limited to decisions regarding contract extensions, cancellation, or non-renewals.
- Contract specifications are properly implemented including the timely payment of vendor invoice statements.
- Evidence of review and recalculation of contract supporting documents are properly organized and readily available upon request.

Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.

Detailed Objectives, Scope, and Methodology

We conducted this review as part of our annual audit plan and in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Internal Audit's overall objective is to determine if the Third-Party Administrator (TPA) of the Cobb County (the County) Workers' Compensation Plan is administering the plan designs as intended or mandated by Georgia State Law, in compliance with the agreement terms and conditions, and County funds were expended properly and in a timely manner. Based on the results of preliminary survey procedures, we revised²³ this project objective and judgmentally postponed the component of the objective designed to facilitate a co-sourced audit of the TPA services over Workers' Compensation claims. As such, our revised objective was to determine if adequate control activities exist to ensure that County funds were expended properly and in a timely manner. Our scope covered Workers' Compensation Plan transactions for the period October 2016 through August 2018.

To accomplish our objective, we performed the following:

- Obtained and reviewed a copy of the TPA Contract between the County and PMA.
- Interviewed key personnel in the Human Resources and Finance Departments that perform functions related to the Workers' Compensation Plan process.
- Performed an analysis of the contract performance guarantees.
- Performed various analyses of financial reports downloaded from the County's financial system.
- Scheduled and analyzed PMA invoices of claims and administrative fees.
- Physically observed HR's process used to validate and approve PMA vendor invoices of claims and administrative fees.
- Reconciled all Workers' Compensation transactions for the period October 2016 through August 2018.

²³ See 'Revised Project Objective' discussion on Page 3.

Abbreviations

TPA	Third Party Administrator
PMA	PMA Management Corp.
ALAE	Allocated Loss Adjustment Expense
HIPAA	Health Insurance Portability and Accountability Act

Major Contributors to This Report

Latona Thomas, CPA, Internal Audit Director
Michelle Swaby, CPA (*inactive*), PT Senior Auditor
David Murry, Internal Auditor II, Auditor-in-Charge

FINAL Report Distribution List

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Curtis (Buddy) Tesar, Finance Department/Associate Comptroller

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on County governance. This benefit will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

Type and Value of Outcome Measure:

- Cost Recovery - Actual; \$22,981 in costs recovered from an overpayment made to settle vendor invoices. (See Page 6).

Methodology Used to Measure the Reported Benefit:

We noted an instance where the County overpaid a vendor invoice statement by \$22,981. Based on the vendor invoice statement, the original amount due was revised to account for a prepayment, and a revised vendor invoice statement was sent to the Human Resources Department; however, the payment authorization memorandum was prepared, approved, and paid based on the original amount due.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; Recommendations, when implemented, will provide assurance of the completeness and accuracy of Workers’ Compensation transactions, financial reporting, and accounting records. (See Pages 5-8).

Methodology Used to Measure the Reported Benefit:

During the preliminary survey, we reconciled all Workers’ Compensation transactions for the period October 2016 through August 2018 and found erroneous posting codes. We are aware that while posting codes do not impact the overall financial reporting, they do impact other sublevel reporting functions and budgeting analyses.

Type and Value of Outcome Measure:

- Increased Safeguards over County Information – Actual; Recommendations, when implemented, will provide increased controls over employee information. (See Pages 4-5).

Methodology Used to Measure the Reported Benefit:

During our review, we noted inadequate safeguards over employee eligibility information. The Human Resources Department keeps a record in Microsoft Excel of employees receiving Workers’ Compensation Fund benefits. We found that the Excel spreadsheet is located on a shared drive in the Human Resources Department, accessible to all Human Resources Department employees, and is not system or password protected.

Auditee's Response to the Draft Report



COBB COUNTY HUMAN RESOURCES

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MEMORANDUM

DATE: June 18, 2019

TO: Latona Thomas, CPA, Director, Internal Audit

FROM: Tony Hagler, Director, Human Resources 

SUBJECT: Review of the Control Activities over Funds Expended under the Workers' Compensation Plan

This memo is in response to the subject report dated June 21, 2019. Your report identified opportunities to improve the overall Workers' Compensation process. Several recommendations were made and our response to those recommendations are below.

Recommendations

The Human Resources Director or designee should:

Recommendation 1: Ensure manual spreadsheets include system or password protection with limited access to Human Resources employees based on their roles and responsibilities within the department. Spreadsheets should be periodically validated for accuracy, by an individual independent of the primary users and reviewed for efficiency and continued applicability.

Response: Concur

The Compensation & Benefits Manager and staff will review this process to make appropriate changes for process to be efficient utilizing resources available and ensuring access is secure to those who need to have access. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.

Recommendation 2: Review the current process for submitting approved vendor check registers to the Finance Department and assess whether the employee information noted in the PMA payment register should be redacted to remove potentially sensitive employee information prior to forwarding for payment. This assessment should also include whether the detailed payment register should be retained in Human Resources and only the summary page forwarded to the Finance Department for payment.

Response: Concur

The Human Resources Manager for Systems & Records Division and staff will review this process for submitting approved vendor check registers to the Finance Department and assess whether the employee information noted in the PMA payment register should be redacted to remove potentially sensitive employee information prior to forwarding for payment or only submitting cover sheet for payment. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by August 1, 2019.

Recommendation 3: Review department's written procedures for completeness and current applicability based on a workflow that eliminates or mitigates the risks of processing claims and administrative fees. The results should be used as a basis to revise the written procedures to ensure that the roles and responsibilities are clearly delineated within the eligibility review/verification, payment preparation/authorization, and approval of Workers' Compensation Plan claims and administrative fees (in accordance with contract agreements and department expectations). Evidence of all reviews and approvals should be documented and maintained in an organized manner. The updated procedures should also include the detailed process of the review of vendor invoice statements and the need to check for accuracy through the recalculation of the vendor invoice statement totals.

Response: Concur

The Human Resources Manager for Systems & Records Division; the Compensation & Benefits Manager and HR staff will review department's written procedures for completeness and current applicability based on a workflow that eliminates or mitigates the risks of processing claims and administrative fees. The results should be used as a basis to revise the written procedures to ensure that the roles and responsibilities are clearly delineated within the eligibility review/verification, payment preparation/authorization, and approval of Workers' Compensation Plan claims and administrative fees (in accordance with contract agreements and department expectations). Evidence of all reviews and approvals will be documented and maintained in an organized manner. The updated procedures will also include the detailed process of the review of vendor invoice statements and the need to check for accuracy through the recalculation of the vendor invoice statement totals. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.

Recommendation 4: Designate a position within Human Resources with the responsibility of completing a periodic reconciliation of Workers' Compensation Plan financial transactions. This reconciliation should ensure that the transactions are periodically monitored for completeness, accuracy, is properly posted to the correct expenditure object code, and in accordance with contractual requirements. Human Resources Management should also ensure that segregation of duties exists between the reconciliation process and other responsibilities.

Response: Concur

The Human Resources Manager for Systems & Records Division; the Compensation & Benefits Manager will review and revise processes including designation of a position within Human Resources with the responsibility of completing a periodic reconciliation of Workers' Compensation Plan financial transactions. This reconciliation will ensure that the transactions are periodically monitored for completeness, accuracy, and properly posted to the correct expenditure object code, and in accordance with contractual requirements. Human Resources Management will also ensure that segregation of duties exists between the reconciliation process and other responsibilities. Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.

Recommendation 5: Ensure that the position responsible for the department's contract management activities follow County guidance. Responsibilities should include, but not be limited to ensuring that:

- Contract and amendments are documented in clear and formalized writing, and duly endorsed by both parties to confirm understanding of the mutual obligations of the contract and/or amendments, to include, but not be limited to decisions regarding contract extensions, cancellation, or non-renewals.
- Contract specifications are properly implemented including the timely payment of vendor invoice statements.
- Evidence of review and recalculation of contract supporting documents are properly organized and readily available upon request.

Response: Concur

The Human Resources Manager for Systems & Records Division will ensure that the position responsible for the department's contract management activities follow County guidelines. Responsibilities should include, but not be limited to ensuring that:

- Contract and amendments are documented in clear and formalized writing, and duly endorsed by both parties to confirm understanding of the mutual obligations of the contract and/or amendments, to include, but not be limited to decisions regarding contract extensions, cancellation, or non-renewals.
- Contract specifications are properly implemented including the timely payment of vendor invoice statements.
- Evidence of review and recalculation of contract supporting documents are properly organized and readily available upon request.

Any change in procedure will be implemented and documented in the form of a Standard Operating Procedure by October 1, 2019.