

Summit County Executive's Office
Department of Insurance and Risk Management
1st Follow-up Audit Report

Prepared For:

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Audit Committee

Approved by Audit Committee
September 19, 2012

Summit County
Internal Audit Department
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Summit County Executive's Office
Department of Insurance & Risk Management
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Auditors:

Lisa Skapura, Director, Meredith Merry, Deputy Director, and Jacob Weisheit, Internal Auditor

Objectives and Methodology:

To determine if management has implemented their management action plans as stated in the previously issued Preliminary and Follow-up Audit reports.

We conducted this follow up audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope:

An overview and evaluation of policies, processes, and procedures implemented by the department because of management actions stated in the management action plans during the Preliminary Audit process.

Testing Procedures:

The following were the major audit steps performed:

- Review the final Preliminary report to gain an understanding of IAD issues, recommendations, and subsequent management action plans completed by the audited department/agency;
- Review the work papers from the Preliminary Audit;
- Review any departmental/agency response documentation provided to IAD with management action plan responses following the Preliminary Audit;
- Identify management actions through discussions/interviews with appropriate departmental personnel to gain an understanding of the updates/actions taken;
- Review applicable support to evaluate management actions;
- Determine implementation status of management action plans;
- Complete the first Follow up Audit report noting the status of previously noted management actions.

Summary:

Of the nineteen (19) issues and the corresponding management action plans requiring follow-up, as noted in the preliminary audit report, the Department of Insurance and Risk Management (Insurance Department) fully implemented seventeen (17) and partially implemented two (2) management action plans.

Based on the information above, IAD believes that the Insurance Department has made a positive effort towards implementing the management action plans as stated in response to the issues identified in the Preliminary Audit. No further follow up is needed.

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Listed below is a summary of the issues and their status. Each issue number is in reference to the Preliminary Audit report:

Issues Fully Corrected Prior to the End of Preliminary Audit Fieldwork:

- **Issue 2** – Upon discussions with Insurance Department personnel and review of the accounts receivable/cash receipts process, IAD noted that the same employee is responsible for invoicing, receiving funds, depositing funds, and reconciling deposits for the following areas:
 - a. Outside Agency Premiums,
 - b. COBRA,
 - c. Pharmacy Rent,
 - d. Employee Assistance Program (EAP).It was also noted that the employee is responsible for receiving, depositing, and reconciling cash for the following additional functions:
 - a. Employee premiums for unpaid leave of absences,
 - b. Lifestyles Wellness Program,
 - c. Third Party Insurance claims reimbursements,
 - d. Prescription Rebates,
 - e. BWC Safety Council Rebates.

- **Issue 12** – Upon review and comparison of the ExpressMed contract and corresponding County Resolution (09-334), it was noted that the contract did not include an annual rent increase of 3%, as stated in the resolution. Additionally, it was noted that the monthly billing to the pharmacy did not include the increase.

Management Action Plans Fully Implemented:

- **Issue 1** – Upon review of the Insurance Department Policies and Procedures, IAD noted the following:
 - There was no comprehensive departmental procedures manual; however, several staff had stand-alone procedures for their respective functions,
 - There were no formal written procedures for several of the day-to-day functions of the department (e.g., open enrollment, eligibility verification, prevailing wage compliance, maintenance of property schedules, payroll reconciliation, County wellness programs, processing 457 withdrawals, etc.),
 - There were incomplete procedures (e.g., Cash Receipts),
 - There was information referenced in the procedures that was outdated (e.g., Accounts Payable, Cash Receipts, COBRA Participant, Payroll Processing, Workers Compensation),
 - There were names rather than titles referenced in the manual.

Through review of the approved Insurance P&P manual, effective September 2012, all of the above-noted issues have been corrected.

- **Issue 3** – During discussions with Insurance Department personnel, it was noted that there are currently no reports being generated listing open invoices and outstanding aged balances for the following receivables:
 - Outside agency premiums,
 - Pharmacy rent,
 - Employee Assistance Program (EAP),

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- COBRA,
- Employee premiums for unpaid leave of absence.

During testing, IAD confirmed that there are outstanding balances for three (3) of the five (5) types of receivables listed above.

Through review and testing, IAD was able to confirm that accurate aging reports are being generated for the above-noted areas, with the exception of employee unpaid leave, which is reconciled with payroll on a bi-weekly basis. Additionally, a policy and procedure for reconciling cash receipts was noted.

- **Issue 5** – During testing of 2011 outside agency billing, generated from the Insurance Department database, IAD noted three (3) of the five (5) agencies having incorrect billing amounts, with two (2) resulting in an outstanding balance. Additionally, one (1) of the two (2) agencies was noted as having an outstanding balance resulting from non-payment.

Through review and testing of invoices, IAD was able to confirm accurate billing, in accordance with contracts, legislation, etc.

- **Issue 6** – Upon review of the EAP contracts and corresponding invoicing, it was noted that there is no written contract in place for one (1) of three (3) entities participating in the program, therefore there is nothing in place to legally bind the agency to specific terms for participation in the program.

Through observation of invoices and contracts for the EAP program, IAD was able to confirm that a contract was in place for each entity.

- **Issue 7** – During testing of COBRA plan participants with payments in 2011, IAD noted ten (10) out of thirty (30) instances with an outstanding balance for the following reasons:

- Two (2) instances resulting from non-payment of premiums,
- Seven (7) instances resulting from improper allocation of premiums when a payment period fell between two (2) years,
- One (1) instance resulting from both non-payment of premiums and improper allocation of premiums when a payment period fell between two (2) years.

Upon comparison of the testing performed to the COBRA aging report generated from the Insurance Department database, it was noted that the aging report did not agree to the testing.

Through testing and observation, IAD confirmed accurate billing and aging reports for active and terminated COBRA participants. Additionally, a procedure for reconciling cash receipts was noted.

- **Issue 8** – During testing of compliance with COBRA regulations, it was noted that one (1) of thirty-one (31) participants exceeded the maximum period of coverage that is mandated by federal law.

Through review and testing of active COBRA participant files, IAD verified that the maximum period of coverage was not exceeded.

- **Issue 9** – During testing of employees with eighty (80) hours or greater of unpaid leave in 2011, IAD noted three (3) out of ten (10) employees with a past due balance for the employee portion of benefit premiums.

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Through review of premium rates and employee deductions and payments, IAD verified employee premiums were being properly paid. Additionally procedure for the payroll reconciliation process was noted.

- **Issue 11** – Upon review of Exhibit B of the Express Med Pharmacy Service contract, it was noted that the County is to receive, on a quarterly basis, 30% of the net profit of pharmacy retail sales. Through testing it was noted that no payments have been received from ExpressMed attributable to net profit, nor has there been any supporting documentation provided stating the position of pharmacy sales at the time of the audit.

Through review of policies and procedures and the SCRIPTS' profitability report and projections for 2012, IAD confirmed that the pharmacy is submitting the required documentation for review to the County.

- **Issue 13** – During property insurance testing it was noted that in one (1) out of twenty (20) instances where the County was insuring a property that was owned and insured by the Alcohol, Drug Addiction and Mental Health Board of which the County has no insurable interest. IAD noted that the structure was insured for \$351,900 and the contents for \$51,200.

Through testing and review of the insurance policy and GIS reports, IAD confirmed that insured properties are county-owned. Additionally, IAD noted a procedure for the county property schedule.

- **Issue 14** – During detail testing of the payroll to employee benefits reconciliation, it was noted that four (4) out of twelve (12) employees with benefits deduction exceptions for pay period 6, pay date 3/18/11, of the Summit County Developmental Disabilities (DD) Board were still not corrected as of pay period 12, pay date 6/10/11. The potential for the County never receiving the amounts due from the employees greatly increases with the passage of time.

Through testing and review of employee premiums, payroll deductions, and Banner transactions, IAD confirmed that the payroll to benefits reconciliation for the Developmental Disabilities (DD) Board was accurate and proper communication was made with DD Board personnel to resolve any issues. Additionally, IAD confirmed that the process was documented in the policy and procedure manual.

- **Issue 15** – Upon review of Insurance Department expenditures, IAD noted fifteen (15) out of forty (40) transactions where the invoice date was prior to the purchase order date which is a violation of O.R.C. §5705.41.

Through testing of expenditures, IAD confirmed that money was encumbered prior to incurring the expense/liability. Additionally, a policy and procedure for processing invoices for payment was noted, which included references to legislation to determine if expenditures require pre-certification.

- **Issue 16** – Upon detailed testing of sewer claim reimbursements and the procedure for processing such, IAD noted that in two (2) out of six (6) instances where release forms were sent out and signed by the claimant prior to obtaining claim approval from the County Executive in accordance with Summit County Codified Ordinance 119A.03 (g).

Through review of policies and procedures and testing of sewer claim reimbursements for the period 1/1/12-5/30/12, IAD verified that approval by the County Executive is obtained prior to the claimant signing the release, in accordance with Codified Ordinances.

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- **Issue 17** – Upon review of the Insurance Department's expenditure process, IAD noted that the same employee is responsible for both the ordering and receiving of supplies. This is an improper segregation of duties which could allow for the misappropriation of County assets.

Through discussions with Insurance personnel and review of policies and procedures, IAD confirmed that duties have been properly segregated with regard to ordering and receiving supplies.

- **Issue 18** – Upon review of the packing slips selected for detailed testing, IAD noted that there was no evidence of departmental review noted on the packing slip upon receipt of goods. Therefore, IAD was not able to confirm the accuracy of quantities received, and if short, the County would be responsible for the cost of supplies ordered but not received.

Through testing, IAD verified documentation of receipt on the packing slips.

Management Action Plans Partially Implemented:

- **Issue 4** – Upon request for copies of active contracts it was noted that there are no written contracts in place for the following outside agencies:
 - Summit/Akron Solid Waste Management Authority,
 - NEFCO,
 - Ohio Small Business Development Center,
 - Summit County Historical Society.

These agencies are currently participating in the County's health benefit plans; however, there are no agreements in place to legally bind the agencies to specific terms for participation in the County benefit plans.

Through discussions with the Deputy Director and review of documentation, it was determined that two of the above-noted agencies are no longer eligible to participate in the County's health benefit plan, and effective 12/31/12, they will be removed from the County's benefit plan. IAD verified that notification regarding the same was sent to them. Additionally, IAD was provided with an opinion from an attorney stating that employees of Summit/Akron Solid Waste are considered county employees for the purposes of the insurance program; therefore, a contract is not necessary.

A letter was sent to the agency during the audit, notifying them that a contract will need to be executed in order for them to continue to participate in the County's Benefit Program. However, a contract is still not in place with NEFCO.

- **Issue 10** – During testing of the most recently completed LiteStyle Wellness Program, the following was noted:
 - Fourteen (14) out of fifty-nine (59) instances where the employee/participant was improperly reimbursed,
 - Eight (8) out of eight (8) applicable instances where the employee/participant did not reimburse the County for missed classes/sessions when the cost exceeded the enrollment fee paid by the participant. In three (3) of the eight (8) instances, the employee was also reimbursed by the County.

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Per the LiteStyle agreement, the participant/employee will reimburse the County \$15 per each class/session missed. This amount is deducted from the reimbursement of the enrollment fee paid, and any remaining amount due is to be reimbursed back to the County.

Through testing and review of a completed 2012 LiteStyles program (Jan-Apr 2012), corresponding Banner transactions, and participant agreements, errors were noted with reimbursements; however, corrections were made prior to the end of fieldwork. Additionally, a procedure for the Litestyles program was noted.