



ARLINGTON
VIRGINIA

Internal Audit Report: Contract Compliance

Human Resources Department: Helmsman Management Services, LLC
Contract No. 19-147-RFP

Report Date: October 16, 2023

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TRANSMITTAL LETTER



October 16, 2023

Marcy Foster
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Maria Meredith
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Pursuant to the contract and related statement of work for Arlington County, Virginia (County), we hereby present this contract compliance internal audit report for the County's Human Resources Department – Helmsman Management Services, LLC (Helmsman) Contract Agreement No. 19-147-RFP (Contract). Our report is organized in the following sections:

| | |
|--------------------------------|--|
| Executive Summary | This section includes a background summary of the function, the objectives and approach, and a description of the process improvement opportunity noted during this audit, if any. |
| Background | This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements. |
| Objectives and Approach | The audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach. |

As described in our objectives and approach outlined on pages 7 and 8 of this report, the observations noted are based on our analysis of the processes, documents, records and information requested and provided to us by the County. This contract compliance audit focused on evaluating the soundness of internal control policies and oversight over workers' compensation claims processing and on reviewing compliance with certain terms and conditions in the Contract.

We would like to thank the staff and all those involved in assisting RSM US LLP with this contract compliance audit.

Respectfully Submitted,

RSM US LLP

RSM US LLP

EXECUTIVE SUMMARY

Background

Contract compliance monitoring is an integral piece of the County's control environment. Contract compliance and monitoring are the responsibility of the individual departments / bureaus.

Effective January 1, 2017, and as updated in March 2020, the County implemented a *Contract Administration Policy* for all contracts, regardless of their procurement methodology or dollar value. The purpose was to define and implement a standard policy and process for the administration of contracts and define roles and responsibilities for County personnel that monitor and manage contractual relationships.

The Helmsman contract that was selected for this contract compliance audit is managed by a Project Officer (Risk Manager) in the Human Resources Department (HRD). Agreement No. 19-147-RFP (Contract) is a third-party services contract to provide claims management and related services for workers compensation, first party property, auto physical damage and automobile and general liability claims for the County. Agreement No. 19-147-RFP went into effect on April 29, 2020. There have been four amendments related to the Contract to revise certain terms and extend the termination date of the Contract, effective April 14, 2021, May 2, 2022, May 3, 2022, and May 1, 2023. The Contract expired on September 30, 2023 and the County is transitioning to a new provider for these services.

The County's HRD is responsible for administration and oversight of the Contract with Helmsman Management Services, LLC (Helmsman). The Retirement and Workers' Compensation Benefits Manager is responsible for oversight of the workers' compensation portion of the contract. For workers compensation claims, Helmsman calculates and pays certain claims and related expenses to employees and the appropriate third parties for medical and other expenses on behalf of the County. On a monthly basis, Helmsman provides detailed reports of the claims processed/paid during the preceding month and invoices the County for reimbursement of those payments.

Objective and Scope

The objective of this audit was to assess whether the County's system of internal controls was adequate and appropriate for effective contract administration and compliance with selected provisions of the contract as it relates to the calculation of workers compensation claim payments and fees paid by Helmsman on behalf of the County.

The audit period was July 1, 2022 through April 30, 2023. The scope of testing included reviewing a sample of applicable invoices and related workers compensation events which were paid during the audit period, as well as certain supporting documentation, calculations, proof of payments, and reporting by Helmsman for these selected events, as well as reviewing other applicable requirements identified through the planning process.

We also performed recalculations of various award types disbursed by the contractor on behalf of the County. These calculations included, but were not limited to, average weekly wage data, permanent and temporary disability ratings, and total award amounts. We used information from the Virginia Workers' Compensation Commission to assess that correct procedures, calculation variables, and relevant minimum and maximum award rates were utilized.

Fieldwork was performed May 2023 through September 2023.

No observations were noted during the review. We did identify one process improvement recommendation, detailed on page 3.

Overall Summary / Highlights

No observations were identified during our assessment. Had we found any observations, we would have assigned relative risk or value factors to each observation identified. Risk ratings allow for the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider when determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. One process improvement opportunity was identified to strengthen the efforts and support maintained over obtaining a fully executed Award Agreement.

EXECUTIVE SUMMARY (CONTINUED)

Process Improvement Opportunity

1. Payment of Compensation without a Signed Award Agreement

As part of the compensation award process, the Virginia Workers' Compensation Commission (VWCC) requires that a formal Award Agreement form be provided to the claimant as documentation to support several purposes, to include evidence of the claim filed, agreed upon award amount, average weekly wage calculation, and any applicable physician's or other external reports. Per the VWCC form instructions, the Award Agreement is "to be completed whenever a claim has been accepted as compensable and the Injured Worker is entitled to an award. This Award Agreement provides the basis for the award of compensation and contains sufficient information to establish the essential elements of a compensable claim." This Award Agreement, once signed by the claimant and filed with the VWCC, then serves as recognition that a mutually-agreed-upon claim payment was reached.

Of the 18 indemnity claims reviewed, we noted that 7 claims did not have an employee-signed Award Agreement on record. When we inquired with HRD on these 7 cases, the Project Officer stated that 6 of the 7 forms were never signed by the employee and sent back to Helmsman. In 1 of the 7 cases, the claim was a County-paid claimant who received salary in lieu of compensation; as such, no Award Agreement was required. In each case, we verified the claimant was paid the compensation and a partially executed Award Agreement was on file (i.e., completed except for employees' signatures).

The Contract between the County and Helmsman does not require Helmsman to follow-up on unsigned Award Agreements with the claimants, nor does it require them to hold payments until Award Agreements are signed and returned by claimants. We noted through our discussions that the VWCC will not accept an Award Agreement that is not signed by the claimant; however, the Award Agreement is not necessarily a required document by the VWCC because Helmsman is still required to provide the VWCC with an electronically filed Supplemental Report of Injury (SROI) to detail compensation paid on all cases. However, as the Award Agreement represents the record that the claimant formally requested and has accepted the compensation amount, a lack of a signed Award Agreement could leave the County open to claimants or the VWCC later disputing the claim, which may result in legal and/or administrative costs.

While HRD acknowledged that obtaining a signed Award Agreement is a best practice, HRD stated that its standard practice is to pay out the compensation due to the claimants voluntarily, regardless of receiving a signed Award Agreement, since the County knows the amounts are due to the claimants. If claimants were to dispute payments after they are made, the County receives credit for payments already made to the claimants. For HRD, these Award Agreements are more of an administrative procedure since SROI filings with the VWCC also occur. Further, HRD stated that there is risk of employee-employer relations damage should the County fail to timely compensate its injured workers. HRD's position is that by paying the voluntary payments it knows are due, the County is reducing the likelihood for a potential legal dispute.

We recommend that the County consider the following:

- The County work with its new claim administrator to establish formalized procedures related to expectations for the performance of follow-up and documentary evidence to maintain over its efforts to obtain a signed Award Agreement whenever possible. This should include a plan for cadence and format (e.g., letter, email) of follow-up contact with each claimant to ensure adequate efforts have been performed. The claim administrator should retain documentation of such contact in its files. Reducing voluntary payments to claimants will limit liability for further disputes, and the accompanying additional administrative and legal costs.

EXECUTIVE SUMMARY (CONTINUED)

Process Improvement Opportunity (continued)

1. Payment of Compensation without a Signed Award Agreement (continued)

Management's Response:

As stated above, obtaining the employee's signature on the Award Agreement is best practice; however, submission of the signed agreement is not required by the VWCC since SROI filings are made to report the payments to the employee. In mid-November, the VWCC made improvements to their Award Agreement providing for reporting of multiple benefit periods due on one form. Hopefully, this improvement will allow employees to feel more comfortable about the document they are being asked to sign. HRD will confirm with the new third-party administrator that they are using this new form and that they follow up at least once via email with the employee to receive an employee-signed Award Agreement.

The statement, "a lack of a signed Award Agreement could leave the County open to claimants or the VWCC later disputing the claim, which may result in legal and/or administrative costs" is not 100% accurate. Regardless of whether a signed Award Agreement is on file, claimants can dispute any aspect of their claim. Resolving benefit payments due is a relatively simple effort and often can be done without much, if any, legal intervention. When an employee wants to dispute their benefits, the VWCC issues an Order to the administrator (HMS in this audit's scenario) asking for resolution. If issues are not resolved administratively, then the dispute would escalate to needing legal assistance. Prior to the VWCC amending their Award Agreement, we found that having our County Attorney's Office submit a Stipulated Order to the VWCC for complex wage benefit issues was the easiest and most understandable method for documenting the benefits due. HRD expects this practice may be eliminated with the introduction of the new Award Agreement form.

Responsible Party: Retirement & Workers' Compensation Benefits Manager

Target Date: December 15, 2023

BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

Contract compliance encompasses all contractual agreements entered into by the County. Although certain aspects of the purchasing function are centralized within the Department of Management and Finance (“DMF”), and vendor selection is performed in conjunction with Purchasing, some of the high-risk areas like contract administration, compliance and monitoring are the responsibility of the individual departments / divisions / bureaus. These monitoring responsibilities specifically include:

- Understanding the scope of work and terms and conditions of the contract;
- Managing contract billings to avoid cost over payments;
- Validating complete and satisfactory performance of work through physical walkthroughs and site visits, when appropriate;
- Ensuring timely performance of contracted work;
- Providing updates to the Department Director, Division Chief and Department of Management and Finance related to progress and budget, as necessary;
- Maintaining appropriate documentation, in compliance with the County level document retention policy and respective contract; and
- Reviewing and approving invoices for payment to the Contractor in line with the payment terms and conditions outlined in the agreement.

Effective January 1, 2017, and as updated in March 2020, the County implemented a *Contract Administration Policy* for all contracts, regardless of their procurement methodology or dollar value. The purpose was to define and implement a standard policy and process for the administration of contracts and define roles and responsibilities for County personnel that monitor and manage contractual relationships. Specifically, the policy establishes Project Officer responsibilities, defines internal controls surrounding contract payment, quality assurance and recordkeeping, and outlines all applicable regulations to which the contract administration process must adhere.

Helmsman Management Services, LLC (Helmsman)

The Helmsman contract that was selected for this contract compliance audit is managed by a Project Officer (Risk Manager) in the Human Resources Department (HRD). Agreement No. 19-147-RFP (“Contract”) is a third-party services contract to provide claims management and related services for workers compensation, first party property, auto physical damage and automobile and general liability claims for the County. Agreement No. 19-147-RFP went into effect on April 29, 2020. There have been four amendments related to the Contract to revise certain terms and extend the termination date of the Contract, effective April 14, 2021, May 2, 2022, May 3, 2022, and May 1, 2023. The Contract expired on September 30, 2023 and the County is transitioning to a new provider for these services.

Workers Compensation Claims

The scope of this review was limited to reviewing certain workers compensation claims. Helmsman calculates and pays certain claims¹ and related expenses to employees and appropriate third parties for medical and other expenses (e.g., nurse case management fees, employee mileage reimbursement, etc.) on behalf of the County. As part of this process, the County provides Helmsman with certain pertinent information for the calculations, such as the claimants’ average weekly wage information, for a rolling 12 months, that is required for certain calculations.

¹ It is noted that the County directly pays for some workers compensation claims, such as salary continuation benefits. These payments, while tracked by Helmsman, are not paid by Helmsman and are outside the scope of this contract compliance review.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

A claim is typically initiated by an employee's supervisor, or designee, upon notification from the employee. The supervisor calls in the initial claim to Helmsman, which includes basic information about the employee, whether medical care is needed, lost time information, etc. Helmsman then has a process to contact the employee, investigate the claim, and determine whether the claim is compensable.

If compensable, as part of the compensation award process, the Virginia Workers' Compensation Commission (VWCC) requires that a formal Award Agreement form be provided to the claimant as documentation to support several purposes, to include the agreed upon award amount, average weekly wage calculation, and any applicable physician's or other external reports. This Award Agreement, once signed by the claimant and filed with the VWCC, then serves as recognition that a mutually-agreed-upon claim payment was reached. This form is to be completed by the claim administrator (in this case, Helmsman) whenever a claim has been accepted as compensable and the injured worker is entitled to an award. Helmsman is also required to provide the VWCC with an electronically filed Supplemental Report of Injury (SROI) to detail compensation paid on all cases.

Helmsman makes all payments to the claimant, hospital, or provider on behalf of the County, with the exception of payments made by the County to claimants for salary-in-lieu-of-compensation (i.e., "disability leave"). Those payments made by Helmsman are then aggregated and billed back to the County for reimbursement, along with detailed reports of each claim.

Helmsman Invoice Review and Approval

On a monthly basis, Helmsman invoices the County for reimbursement of any workers compensation payments made during the preceding month. Invoices are submitted with a report of each claim paid during the month and reviewed and approved by the County Workers' Compensation Administrator and the County Workers' Compensation Manager. Helmsman is paid for its services based on the Contract Pricing in Exhibit B of the Contract. The payment of these fees was outside the scope of this review.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

Contract compliance encompasses all contractual agreements for the purchase of goods and services including, but not limited to, vendor agreements. The objective of this contract compliance audit was to assess whether the system of internal controls was adequate and appropriate for effective contract compliance, with selected provisions of the Contract as it relates to the calculation of workers compensation claim payments and fees paid by Helmsman on behalf of the County.

The scope of this contract compliance audit encompassed one (1) contract from the Human Resources Department Agreement No. 19-147-RFP with Helmsman Management Services, Inc. The audit period was July 1, 2022 through April 30, 2023.

Testing included review of applicable invoices and related workers compensation events which were paid during the audit period, as well as certain supporting documentation, calculations, proof of payments, and reporting by Helmsman, and any other applicable requirements identified through the planning process.

We judgmentally selected 35 claim transactions (18 related to indemnity payments and 17 related to general medical/other expenses) and 5 lump sum payment requests (referred to as “cash calls”), and requested additional supporting documentation, as needed. We performed recalculations of various award types disbursed by the contractor on behalf of the County. These calculations included, but were not limited to, average weekly wage data, permanent and temporary disability ratings, and total award amounts. We used information from the Virginia Workers’ Compensation Commission to utilize correct procedure, calculation variables, and relevant minimum and maximum award rates during the audit.

This was a limited scope contract compliance review, and as such, the below scope was not intended to review all terms and conditions of the Helmsman contract.

Approach

Our approach to the audit execution consisted of the following phases:

Understanding and Documentation of the Process

The first phase of this audit consisted primarily of inquiry and walkthroughs, to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following was performed as a part of this phase:

- Conducted interviews with the appropriate representatives to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements;
- Conducted interviews with key personnel to obtain a detailed understanding of the contract administration and compliance process(es), specifically:
- Reviewed the applicable policies and procedures and agreements related to this project;
- Performed walkthroughs to gain an understanding of the function and assess the design of internal controls; and
- Developed a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls, based on the information obtained through our review, inquiry and walkthrough procedures.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The purpose of this phase was to test compliance with workers compensation provisions in the Contract and internal controls. Our fieldwork testing utilized sampling and other audit techniques to meet our audit objectives outlined above. Procedures included, but were not limited to:

- Gathered background information on the County's contract compliance and monitoring procedures and any required controls or documentation;
- Determined whether HRD had related contract administration and compliance procedures outside of County-level procedures;
- Obtained background information on the selected Helmsman Contract, including contract copy, contract administration information, and detail of expenditures under the Contract during our audit period.
- Tested key controls mitigating risks, such as:
 - Data collection and retention processes and controls related to workers compensation calculations and payments completed by Helmsman;
 - For a sample of 35 claim transactions and 5 lump sum payment requests (cash calls), selected judgmentally from the monthly invoices submitted by Helmsman, we obtained the supporting documentation used by the County to determine the accuracy of the claim being invoiced.
 - For each sample, evaluated the accuracy of the workers compensation calculations and payments made by Helmsman, as it relates to the contract requirements and the Virginia Workers Compensation Commission;
- Assessed the overall contract administration and compliance process and controls to determine effectiveness.

Reporting

At the conclusion of this audit, we vetted the facts of this contract compliance audit with HRD. The draft report was submitted to DMF and HRD for review. An exit meeting was held with HRD and DMF to formally review and discuss the draft report and modify accordingly.



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