



PAT FRANK  
Clerk of the Circuit Court  
13th Judicial Circuit

**COUNTY AUDIT**

**HILLSBOROUGH COUNTY, FLORIDA**

**HUMAN RESOURCES – RISK MANAGEMENT**

**REPORT # 229 (FOLLOW-UP TO REPORT # 199)**

**JANUARY 12, 2012**

January 12, 2012

The Honorable Ken Hagan, Chairman  
The Honorable Kevin Beckner  
The Honorable Victor Crist  
The Honorable Al Higginbotham  
The Honorable Lesley "Les" Miller, Jr.  
The Honorable Sandra Murman  
The Honorable Mark Sharpe

Dear Chairman Hagan and Commissioners:

We have performed a follow-up audit of the Human Resources – Risk Management Contract with Johns Eastern, Audit Report #199, dated July 29, 2010. Thirteen original audit concerns were contained in this report.

Based on our follow-up audit work and discussions with the Division Director of Human Resources – Benefits Support Services, we are closing nine of the original audit concerns. Our follow-up audit indicated that these original concerns have been addressed and corrective changes have been implemented, while four remain open. In addition, a new concern was noted that was not included in the original audit (1 New Finding). The report on the follow-up audit is enclosed.

We appreciate the cooperation and professional courtesies extended to our auditors by the Division Director and Risk Management personnel during this audit.

Sincerely,

Daniel A. Pohto, CPA, CIA  
Director, County Audit

cc: Mike Merrill, County Administrator  
Helene Marks, Chief Administrative Officer  
Christina Swanson, Division Director  
Bruce Dangremond, Manager, Performance Mgmt, Business and Support Services

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### NEW FINDING 10

Overpayment for Surveillance Fees

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## EXECUTIVE SUMMARY

### BACKGROUND INFORMATION:

The primary purpose of the original audit was to review and evaluate internal controls and compliance related to terms of the County's current contract with Johns Eastern "Third Party Administrator and an Optional Proposal for Managed Care Services (TPA)."

### OBJECTIVE:

The objectives of this follow-up audit were to review and evaluate the conditions reported in County Audit Report # 199, July 29, 2010, to determine if corrective actions have occurred and are effective, and if the corrective actions appear to be continuous and/or correction will be monitored to ensure the control weaknesses will not be repeated.

### SCOPE:

The follow-up audit was conducted based on the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors. The follow-up audit procedures were applied to the records, documents, and controls that were in effect during the period from January 1, 2011, through June 30, 2011.

### OVERALL EVALUATION:

We found that Human Resources (HR) had fully implemented corrective action on nine of the thirteen audit concerns noted in the original audit. As a result, we have closed nine original audit findings of the total thirteen concerns.

For the remaining four open concerns HR has initiated corrective actions. However, the actions taken have either not been completed or have not fully corrected the audit concern.

**Please see the Summary of Original Audit Concerns on page 3.**

In addition, a new concern was noted that was not included in the original audit. **The New Finding begins on page 10.**

We suggest that management monitor the open concerns listed in this report to assure that appropriate corrective action is taken. In addition, the corrective action for all concerns should be periodically assessed and adjusted, as necessary, so that the control weaknesses will not be repeated in the future.

The final exit conference was held on December 6, 2011.

**AUDIT BY:**

Daniel A. Pohto, Director, County Audit  
Mark Kolman, Audit Manager  
Marc Hogan, Auditor  
Brenda Tyler, Auditor

## STATUS CHART OF ORIGINAL AUDIT CONCERNS

This chart provides the status of the original report concerns at the completion of the follow-up audit.

For reference purposes, the entire original audit report #199 (issued Fiscal Year 2010, 07/29/2010) can be viewed on the Clerk's web site at <http://www.hillsclerk.com> under Clerk Services, County Audit – Recent Reports.

FINDINGS	OPEN	CLOSED
1		X
2		X
3		X
4	X	
5		X
6	X	
7	X	
8		X
9		X
10	X	
11		X
12		X
13		X

**NOTE:** An Open finding is defined as a control weakness that needs additional corrective action and a Closed finding is a control weakness for which corrective action has been completed to the auditor's satisfaction.

## SUMMARY OF ORIGINAL AUDIT CONCERNS

This chart summarizes the original audit concerns at the completion of the follow-up audit. The original audit concerns that remained open are detailed in the next section – **FOLLOW-UP COMMENTS ON OPEN CONCERNS WITH CLIENT RESPONSES.**

FINDING	DESCRIPTION	STATUS	COMMENTS
1	<b>The vendor has not been providing the County with sufficient information to reconcile outstanding checks.</b>	CLOSED	The vendor is now providing the County with sufficient information to reconcile outstanding checks.
2	<b>The contractor's Affirmative Action Reporting was not current.</b>	CLOSED	Management has obtained current Johns Eastern Affirmative Action Reports.
3	<b>Cost Containment Charges are not included in the contract terms and support for Cost Containment is not tested.</b>	CLOSED	Cost containment charges are included in the current contract. Management is now testing Cost Containment support for accuracy.
4	<b>Establish procedures for measuring and monitoring the TPA's performance.</b>	OPEN	See page 6 of this report.
5	<b>Ensure timely clearing of cancelled checks.</b>	CLOSED	Management has worked to ensure the process of cancelling check has improved.
6	<b>Establish procedures for reviewing SAS 70 reports.</b>	OPEN	See page 7 of this report.
7	<b>Management has not assigned the responsibility of analyzing the financial information.</b>	OPEN	See page 8 of this report.
8	<b>Develop written procedures for claims processing.</b>	CLOSED	Management has written procedures for processing Workers' Compensation and General Liability Claims. Management approved the written procedures.



9	<b>Lack of separation of duties for handling subrogation claims payments.</b>	CLOSED	Proper separation of duties for handling subrogation claims payments exist for the claims handled within Hillsborough County.
10	<b>Update the "Human Resource Workers' Compensation Light Duty and Return to Work Procedures"</b>	OPEN	See page 9 of this report.
11	<b>Include HR's Risk Management in the documented HR Disaster Recovery and Business Continuity Plans.</b>	CLOSED	Management has covered testing the Johns Eastern websites. HR is actively involved in the disaster recovery process and participated in the County's most recent Disaster Recovery Exercise.
12	<b>Document HR's advanced approvals for investigator charges.</b>	CLOSED	Management has a process in place documenting advance approvals prior to investigative cost being incurred.
13	<b>Clarify the contract requirement for claims represented by an attorney.</b>	CLOSED	Management has modified the contract agreement to meet the requirements the County needs.
<b>NEW FINDING</b>	<b>DESCRIPTION</b>		<b>COMMENTS</b>
	<b>Overpayment for Surveillance Fees was made to vendor.</b>		See page 10 of this report.

## FOLLOW-UP COMMENTS ON OPEN CONCERNS WITH CLIENT RESPONSES

This section details the **open** concerns at the completion of the follow-up audit.  
Note: Client Responses are included verbatim and are seen in *italics*

### **FINDING 4 : FOLLOW-UP COMMENT**

#### **Establish procedures for measuring and monitoring the TPA's performance.**

In the original report we noted that Human Resources (HR) did not formally document Johns Eastern's compliance with established performance standards. HR receives a quarterly report containing John's Eastern's performance standards and reviews the report to ensure that they are acceptable. The contract with Johns Eastern defines the Third Party Administrator (TPA) performance standards.

HR does not have written procedures in place to document this process. Monitoring procedures clearly defining objectives and responsibilities help to ensure that the vendor is providing adequate contract performance.

According to HR management they are currently developing these procedures.

#### ***RECOMMENDATION:***

Risk Management should develop written procedures for measuring and monitoring the TPA's performance. The new procedures should be incorporated in the current departmental procedures.

#### ***CLIENT RESPONSE:***

*Concur*

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

*Written procedures to monitor Johns Eastern's compliance with contract performance standards are implemented.*

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

*11/01/2011 - Completed*

## **FINDING 6: FOLLOW-UP COMMENT**

### **Establish procedures for reviewing SAS 70 reports**

The County requests/uses SAS 70 reports issued by independent CPAs to verify that outside service provider organizations have reliable internal controls in place over their financial reporting.

The American Institute of Certified Public Accountants (AICPA), which issued Statement on Auditing Standards (SAS) No. 70, has replaced it with **Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization**. It is effective for fiscal years ending after June 15, 2011.

In the original audit we noted that the County did not obtain a copy of Johns Eastern's SAS 70 report as part of processing the Request For Proposal (RFP). A SAS 70 report provides an independent auditor's opinion on the adequacy of the contractor's internal controls and their significance. During the original audit, HR requested and received a copy of the Johns Eastern SAS 70 report for review.

Human Resources currently reviews the SAS 70 report to verify that Johns Eastern is providing reasonable assurance that internal operations relating to the medical claims are effective. The discovery of possible concerns is addressed with Human Resource management and Johns Eastern. HR has utilized a checklist with Control Objectives established by Johns Eastern and Independent Auditors. HR does not have written procedures in place to document this process. An established written procedure for the SAS 70 review should be incorporated into departmental procedures. If procedures are not established for reviewing the SAS 70 reports, the review of report results may not be as effective.

According to HR management they are currently developing these procedures.

### ***RECOMMENDATION:***

Human Resources should continue to develop written procedures for reviewing Third Party Administrator (TPA) SAS70 reports. The new procedures should be incorporated in the current departmental procedures.

### ***CLIENT RESPONSE:***

*Concur*

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

*New written review procedures for the TPA SAS 70 reports are implemented. Business and Support Services, now assigned to perform this review, will revise and amend these procedures as necessary when the first SSAE 16 is received.*

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

*11/01/2011 - Completed*

## **FINDING 7: FOLLOW-UP COMMENT**

### **Management has not assigned the responsibility of analyzing the financial information**

In the original audit, we noted that the County did not receive all the financial information required by the contract. Audited financial statements provide information about the financial position, performance, and changes in financial position of an organization

HR did receive audited December 2009 financial statements and had the financial statements of Johns Eastern reviewed by a qualified County employee. However, that employee has recently retired. Management has not assigned the responsibility for reviewing and analyzing the financial statement to another employee. Financial analysis of these statements measure the results of operations and assesses the strength and creditworthiness of the business. If the service provider is experiencing financial difficulties, this could have an impact on the quality of service they provide to the County and their ability to provide the services required by the contract.

According to HR management, their intent is to submit the financial statements for review, evaluation, and analysis to Business and Support Services. Business and Support Services is responsible for all necessary financial statement reviews. However, Business and Support Services is in the process of reclassifying a vacant position that will ultimately be responsible for most of the reviews. The referenced process will be included in HR management procedures.

### ***RECOMMENDATION:***

Management should continue as part of the annual process for the Johns Eastern contract, to obtain financial reports from the contractor and have this information analyzed by someone qualified to provide an opinion on the data's financial significance. The procedures for this process should be incorporated into the departmental procedures.

### ***CLIENT RESPONSE:***

*Concur*

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

*Reviewing Johns Eastern financial reports is now assigned to Business and Support Services. A newly created position, requiring skills appropriate to this type of financial review is currently in the recruitment phase.*

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

*01/31/2012*

**FINDING 10: FOLLOW-UP COMMENT**

**Update the "Human Resource Workers' Compensation Light Duty and Return to Work Procedures"**

In the original audit report, we noted that the Human Resources Policy and Procedures Manual, HR-4.07 Workers' Compensation: Light Duty and Return to Work procedures shows the Effective date as August 1, 2001, with an Expiration Dated at 5 years. HR has not yet updated these procedures. Procedures should be periodically reviewed and updated as necessary. If the Policy and Procedures manual is out of date, steps may not be performed in line with management's intentions.

Human Resources is awaiting the approval of the Job Analysis Policy, which will be incorporated into the Workers' Compensation Policy. Based on the Drug Free Workplace Policy, language will be added to identify employee and supervisor responsibilities. Management is currently reviewing the draft policy.

***RECOMMENDATION:***

Human Resources management should continue to review and update Policy and Procedures manual as necessary to ensure that all policies and procedures are up-to-date.

***CLIENT RESPONSE:***

*Concur*

***CORRECTIVE ACTION PLAN:***

*Human Resources will continue to review and update its Policy and Procedures manual to ensure all policies and procedures are current. The "Workers' Compensation Light Duty and Return to Work" section of the Human Resources Policies and Procedures Manual is written and under executive review.*

***TARGET COMPLETION DATE:***

*01/01/2012*

**NEW FINDING:**

**Overpayment for Surveillance Fees was made to vendor**

During the follow-up audit, we found that a vendor was overpaid for services rendered. Best practice suggests that payment should be made after an invoice is reviewed and the service received is confirmed.

A vendor was overpaid \$275.00 for surveillance that was not conducted. The surveillance company on a particular day conducted surveillance for 4 hours but charged the County for 8 hours. In this instance, the surveillance report and the invoice were received at separate times and the adjuster did not verify the hours on the invoice to the hours in the surveillance report. Therefore, the vendor was paid for services not received.

***RECOMMENDATION:***

1. Management should seek reimbursement for the overpayment from the vendor who performed the service.
2. Management should review the vendor's processes to ensure payment is made only for actual services performed.

***CLIENT RESPONSE:***

1. *Concur*
2. *Concur*

***CORRECTIVE ACTION PLAN:***

1. *The overpayment has been received from vendor.*
2. *The vendor has implemented internal processes to ensure no future overpayments. The Workers' Compensation Manager will review all future surveillance bills to ensure payment for actual services performed.*

***TARGET COMPLETION DATE:***

1. *11/18/2011 - Completed*
2. *11/01/2011 - Completed*