

November 4, 1996

Board of County Commissioners
Brevard County, Florida
Post Office Box 1496
Titusville, Florida 32781

Commissioners:

Pursuant to the provisions of Section 125.01(1)(s), Florida Statutes; Article V, Section 16; and Article VIII, Section 1(d) of the Constitution of the State of Florida; and Article 4, Section 4.2.1, of the Brevard County Home Rule Charter, we conducted an audit of the Risk Management program (hereinafter referred to as "Risk Management"), and the Safety Office and the Health and Wellness Office. These areas are administered by the Office of Human Resources under the Board of County Commissioners (hereinafter referred to as the "Board").

PURPOSE

We conducted this audit to assess compliance with applicable federal laws and regulations, Chapters of Florida Statutes, the Florida Administrative Code, and the Board's policies, procedures, resolutions, ordinances, and agreements. Further, we evaluated the adequacy and effectiveness of the program's system of internal accounting and administrative control. We also appraised the economy and efficiency with which resources were employed. Additionally, we performed other auditing procedures that we considered necessary in the circumstances.

BACKGROUND

Risk Management administers group life and health benefits for employees of the Board and Constitutional Officers. It also administers workers' compensation for employees of the Board, Tax Collector's Office, Property Appraiser's Office, and the Clerk of the Courts. Further, it administers all property and liability insurance for the Board and Constitutional Officers, except for the Sheriff's Office. Risk Management provides safety engineering, drug testing, and health and wellness services through its Safety and Health, and Wellness Offices.

SCOPE

We tested compliance by examining Risk Management's records for the period of October 1, 1993 through March 31, 1995. In particular, we examined Risk Management's revenue, expenditures, and transfers between funds. We also reviewed and tested contracts for compliance with applicable agreement requirements. After the audit period and during the course of our fieldwork, we tested internal controls in place and certain areas for compliance with laws, regulations, and Board directives. Due to confidentiality provisions under Rule 49 of the Code of Federal Regulations, we were unable to test Board Policy BCC-36, Drug and Alcohol Testing of Applicants and Employees. Also, the Humana contracts, effective January 1, 1995, were excluded from this audit. On-site testing of contractors located outside of Brevard County was limited to the Alexsis, Inc. (workers' compensation) contract.

OVERALL EVALUATION

Federal Laws and Regulations, Florida Statutes, Florida Administrative Code, and the Board's Policies, Procedures, Resolutions, Ordinances, and Agreements

Except as noted below, the results of our tests indicated that, with respect to the items tested, Risk Management complied with applicable provisions of federal laws and regulations, Florida Statutes, Florida Administrative Code, and the Board's policies, procedures, resolutions, ordinances, and agreements. With respect to items not tested, nothing came to our attention that would cause us to believe that Risk Management had not complied with those provisions.

System of Internal Accounting and Administrative Control

In our opinion, Risk Management's system of internal accounting and administrative control was adequate, except for administration of contracts. Improvement is needed in controls to ensure contracts are properly drafted, approved, and executed. Some improvement in controls is also needed to ensure that tangible personal property is safeguarded, and expenditure and revenue transactions are reconciled to the general ledger.

Other

The Board has not established a minimum acceptable rating for insurance providers.

FINDINGS AND RECOMMENDATIONS

Federal Laws and Regulations, Florida Statutes, Florida Administrative Code, and the Board's Policies, Procedures, Resolutions, Ordinances, and Agreements

FINDING 1 - Risk Management did not comply with copyright laws pertaining to software licenses.

We performed an examination of all personal computer software used by Risk Management. Of 108 copies of 37 software applications residing on Risk Management's 11 computers, management could not document the authorization for 14 copies. The Copyright Act of Title 17 of the United States Code allows a purchaser of a copy of software to load it onto a single computer and to make another copy for archival purposes only. Penalties include liability for damages suffered by the copyright owner or statutory damages of up to \$100,000 for each work infringed. Due to the seriousness of this finding, Risk Management deleted all unauthorized software when informed of the copyright violations.

We attribute this condition to Risk Management's lack of controls to ensure employee compliance with copyright regulations. Lack of documentation may be due to the transfer of computers among Human Resources sections.

RECOMMENDATION - We recommend Risk Management establish and implement controls to ensure software usage is in accordance with federal regulations.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . some computers had been moved around within the Office of Human Resources, more than once. In doing so, some licensed programs were inadvertently left on the machines and separated from the software manuals and papers and some programs were apparently transferred to replacement computers. . . The situation was corrected. . . Responsibility for monitoring all computer software in Human Resources has been centralized . . .

FINDING 2 - Lack of security and privacy may have compromised the confidentiality of workers' compensation files.

During the audit field work, we noted that Risk Management did not lock the file cabinets containing the workers' compensation case files, either during the day or at night. We also noted that, although sign-out cards were available, they were not used. During our review of case files, two files were not in the file drawers. One file was eventually located in a supervisor's office; the remaining file was not found. The Insurance Benefits Specialist who is responsible for handling workers' compensation claims stated that keys to the cabinets were never made available to her.

This lack of confidentiality affects decisions regarding what is placed in the case files. For instance, there is a form available to document Risk Management's approval of claimant surveillance. However, the Insurance Benefits Specialist discontinued its use. Only verbal approval is given so that such sensitive information need not be placed in the case file. Also, the physical arrangement of the Insurance Benefits Specialist's work station is on the main traffic path through the Human Resources Department. This arrangement is not conducive to confidential conversations either by phone or in person.

F.S. 440.125 requires that medical records relating to a work place injury, as well as discussions concerning them, be kept confidential. The present conditions make compliance with this statute difficult if not impossible, resulting in increased liability for the Board if such confidential information becomes public.

RECOMMENDATION - We recommend Risk Management maintain Workers' Compensation case files in a secure environment that will ensure the confidentiality of those records as required by F.S. 440.125. We also recommend Risk Management relocate the Insurance Benefits Specialist's work station to ensure that discussions regarding Workers' Compensation cases are kept confidential.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . the workers' compensation file cabinets have now been equipped with locks. . . Due to the small confines of the Risk Management office, the files. . . never go more than 25 feet from the file cabinet. . . Due to the extensive use of the files it is not practical to constantly be signing files in and out, and it is highly unlikely that an unauthorized person could access them without notice by the staff.

As for confidentiality of conversations, I agree that the current Risk Management office is inadequate. . . Now we are scheduled to move to another building, which will provide the opportunity to correct the problem . . .

FINDING 3 - Risk Management did not retain supporting documentation for insurance coverage and eligibility tests.

BC-33, Records Management Program, Section IV.F. prohibits the unlawful destruction of County records. During our review of Risk Management, we noted the following:

A. Documentation supporting the coverage for property liability insurance obtained through Fireman's Fund was not retained by Risk Management. The insurance policy, which was in effect for fiscal year 1994, contained the following limits of liability:

Property (including buildings, contents, and vehicles)	\$234,651,853
Electronic Data Processing Equipment and Software	\$10,466,159
Contractor's Equipment	\$15,066,603
Total	\$260,184,615

According to the Risk Manager, the amount of coverage is supported by the Brevard County Insurance Listing by Sub Location (INSUR009), a report which includes all property listed on the property controls records and their current value or cost. The Risk Manager indicated that, although a copy of this report was sent to the insurer, the original was discarded since he was not aware that it should be kept.

B. Risk Management advised that eligibility tests are performed twice a year of all participants in Brevard County benefit plans. However, documentation of the tests and corrections made was not retained. Also, written procedures for these tests do not exist.

Risk Management stated that documentation could not be retained because of a lack of storage space. Destruction of these records resulted in the elimination of an audit trail which could have provided reasonable assurance that insurance coverage was adequate and that benefits were provided only to eligible individuals. Further, the County has a Records Management Program available for the storage of such records.

RECOMMENDATION - We recommend Risk Management ensure that documentation supporting the determination of the level of insurance coverage and employee benefit eligibility is maintained. Specifically, we recommend Risk Management comply with BC-33 as to the retention of public records. Additionally, we recommend Risk Management draft written procedures for the testing of employee benefit eligibility.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

A. . . . According to Property Control, they maintain a computer record as of each October 1 going back to the previous fiscal year. Information Systems has informed me that they will amend their procedure to save this database for five years . . .

B. . . . Eligibility lists will be preserved in the future. As for written procedures for checking eligibility, I will direct staff to set their methods down in writing . . .

FINDING 4 - The Board did not approve or execute certain contracts.

In our review of contracts, we noted the following:

A. An agreement with Dr. Michael Mills, Medical Director for Health and Wellness, which did not authorize definitive contract extensions/renewals, expired on September 30, 1994. A renewal agreement extended the contract term until September 1995 at the original cost of \$3,000 per year. The Board did not execute the renewal as required by Section VI.3.b. BC-20, Contracts, which states that "In the event the original Board executed contract does not authorize definitive contract extensions, . . . and the County wishes to extend the contract, the 'Agreement to Extend Existing Contract'. . . must be returned to the Board for proper execution by the Board Chairman, on time and in conformance with this procedure."

B. An agreement with Gallagher Bassett Services, Inc., executed in 1989 provided for administrative services for the County's employee benefit plan. A contract amendment effective January 1, 1995, reduced the services originally provided to the dental and mental health plans only. Although an Agenda Report for the Board meeting on October 4, 1994 included reference to the Gallagher Bassett services, it did not include the increase in cost of the dental plan nor did it note the deletion of the audit clause as noted in Finding 5 below. After we noted the omission, Risk Management reported it to the Board who executed an amendment in June 1995.

C. We examined an unexecuted copy of a loan agreement with the Florida Liability Insurance Commission (hereinafter referred to as the "Commission"). On February 4, 1992, the Board approved a loan agreement with the Commission for \$757,508 to finance the cost of acquiring liability coverage contracts from a local government liability pool and to pay costs of issuance. However, neither Risk Management nor County Finance could locate an executed copy of the loan agreement. As of the March 31, 1995, County Finance had disbursed \$492,363 in principal and \$61,648 in interest to the Commission.

Section III, Paragraph G.3.b., Brevard County Policy BCC-24, Procurement, requires that all awards involving a formal contract be approved by the Board and signed by the Chairman.

We attribute the above, in part, to Risk Management's lack of control over its contracts. Risk Management did not record and monitor its 25 contracts through the contract data system as required by Brevard County Procedure, BC-20, Contract Administration. Per management, the person assigned to this responsibility was involved with the Contract Monitoring Improvement Team and was waiting for implementation of recommended changes to the system to accommodate insurance contracts.

The contract data system was designed to be an effective management tool for control over Board agreements. However, for it to be effective, it must be complete and properly maintained. The absence of this control increases the risk of improper and inefficient use of taxpayer funds. In addition, copies of all contracts should be available to the Risk Manager in order to make informed decisions regarding the payment of invoices.

RECOMMENDATION - We recommend Risk Management comply with BC-20, Contract Administration, and request Board approval of the contract with Dr. Mills. Also, we recommend Risk Management obtain an executed copy of the loan agreement with the Commission. Further, we recommend Risk Management use the contract system to record and monitor its contracts to ensure compliance with Brevard County policy BCC-24, Procurement.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

A. The agreement with Dr. Mills for an extension of Medical Director services to Health & Wellness was approved on the Board agenda 10/22/96 . . .

B. The amended agreement with Gallagher Bassett for reduced services was the outcome of parallel decisions for health insurance changes approved by the Board . . .

The 10/04/96 agenda item specifically referenced GB and their service fee of \$2.25 for continuation of mental health claims services as part of the cost of continuing the current mental health benefits. It did not specify the rate for dental claims service fees. There was no feasible alternative to accepting the small rate increase, as the vendor had to be in place 01/01/95 and there had never been any interest expressed by the Board in moving the dental program . . .

C. To the best of my knowledge, all matters connected with the bond issue were handled entirely by the Finance Department. . . At this time the bond issue has been retired . . .

. . . The Risk Management contracts were updated in the contract data system in mid-1995 and have been maintained since that date . . .

FINDING 5 - An audit clause was deleted from a service contract.

On January 1, 1995, Risk Management amended the contract with Gallagher Bassett Services, Inc., which provides services for dental and mental health claims. The amendment deleted the audit clause that allowed the County to verify the accuracy and performance of Gallagher Bassett under this agreement. It was also noted that the contract with Vision Care, Inc., did not contain an audit clause. As stated in Brevard County Procedure BC-20, Contract Administration, Section IV., Contract Documents, ". . . experience and prudence suggest the use of such a clause is sanctioned by time and custom." The clause would provide that records of the service provider will be available for inspection, on request, for audit purposes, to Brevard County and its auditors. Without such a provision, the County does not minimize its risk of loss from a provider's nonperformance of contract terms.

RECOMMENDATION - We recommend Risk Management ensure that all provider agreements under their control contain an inspection or audit clause as recommended by BC-20.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . A standard provision in any TPA contract, and included in this contract, is that the client owns the records, and the amendment does not delete that provision. Therefore, I believe the County is automatically entitled to access them . . . In the future, we will insist upon clear language in all service contracts providing for audit privileges.

FINDING 6 - Accident and loss reports were not filed timely.

Of 32 claims (from 48 payments examined relating to general liability, auto liability, or property loss) requiring a loss or accident report, 24 or 75% were not received within 48 hours of the occurrence as required by BC-14, Property/Liability Incident Reporting Requirements. These reports were one to 179 days late.

Of the 69 payments examined relating to workers' compensation, the Supervisor's Reports of Accident forms for ten or 14% of the claims and a Notice of Injury for one claim were received two days to over one month later than the time requirements of BC-38, On-The-Job Injuries and Workers' Compensation. Also, we could not determine compliance on two forms since they were not dated.

Untimely reporting of accidents or losses can result in unreported incidents, inappropriate action by the injured party, or inaccurate reports when details are not recalled correctly due to a lapse of time. These factors can result in greater loss or liability to the County. In addition, failure to submit the "Notice of Injury" form to Risk Management on time may result in a \$500 fine imposed by the State of Florida.

RECOMMENDATION - We recommend Risk Management periodically inform all departments of the importance of timeliness in forwarding reports to Risk Management in order to comply with BC-14 and BC-38. Also, we recommend Risk Management advise the County Manager of a department's noncompliance.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

It is clearly the responsibility of the departmental supervisor to file the "Supervisor's Report of Accident" form. Reports are frequently tardy in being submitted to Risk Management . . . We much prefer to contact the supervisor for additional information in a positive manner, since maintaining a rapport with the departments is essential to our mission . . .

The reference to the fines attached to late filings of "Notice of Injury" forms (a state workers' compensation form) is a more significant concern, but has not been a frequent problem. We

continually remind the departments of the penalties and that they will be assessed to their department.

System of Internal Accounting and Administrative Control

FINDING 7 - The location of some computers was not properly recorded.

In our testing of Risk Management's controls over tangible personal property, the correct custodian was not listed on the property control record for six personal computers. These computers had been transferred from or to other locations. These conditions were due to the custodians' failure to follow the guidelines of Section V. F, Transaction Requirements, Transfer, of Procedure PD-11, Property Control. This section requires that a ". . . custodian shall submit a Change in Property Status for each item of property that is reassigned from his inventory to another inventory." Inaccurate records for tangible personal property do not provide the control essential for the proper safeguarding of County assets, especially those items that are most prone to theft such as personal computers.

RECOMMENDATION - We recommend Risk Management ensure that all tangible personal property custodians comply with Procedure PD-11 in order to maintain proper control over County assets, particularly personal computers.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . The records were corrected at the time of the audit and are now centrally maintained and updated.

FINDING 8 - Risk Management is not reconciling the general ledger to supporting documentation.

Risk Management has not been reconciling the general ledger entries to its supporting documentation to ensure that revenues and expenditures are properly recorded. A periodic reconciliation of general ledger entries to supporting documentation is essential to ensure that transactions are executed as authorized.

During our examination of various types of transactions, we noted that a property claim payment (for lightning damage) to the Brevard County Sheriff was authorized by Risk Management for \$63,144.85 (\$63,644.85 less \$500 deductible). However, County Finance issued a check and recorded the full amount of \$63,644.85 as a property loss expenditure. Discussions with Risk Management personnel indicated that general ledger expenditure reports were not reconciled to supporting documentation on file at Risk Management. A reconciliation of reimbursed claims to the general ledger is needed to ensure that all loss expenditures are properly recorded.

Risk Management is responsible for the collection of active employee insurance premiums for health, dental and vision which totalled more than \$8.5 million for the 1994 fiscal year. Each month, County Finance records the premiums collected and withheld. This is based on the

payroll reports for the active employees and deposit reports submitted by Risk Management. During our audit we noted that Risk Management does not reconcile the premiums collected by check to the amount recorded by County Finance. A reconciliation of premiums received to the related general ledger entries is needed to ensure that all revenue from premiums is properly recorded.

RECOMMENDATION - We recommend Risk Management periodically reconcile general ledger entries (for property claims expenditures and insurance premium revenue collected by Risk Management) to supporting documentation.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . It is recognized that making monthly verification of revenue and disbursements is a sound practice and this will be undertaken to the extent staff is available.

FINDING 9 - Invoices were not dated when received.

Risk Management did not mark vendor invoices to indicate the date received. We noted that 11 of 27 or 40% of the invoices we examined were not dated in accordance with Section III.A. of BC-35, Prompt Payment of Invoices, which requires that "The Department first receiving an invoice shall mark the invoice with the date received." Without a date of receipt, it cannot be determined if payments are made in accordance with contract terms or Florida Statutes.

RECOMMENDATION - We recommend Risk Management comply with BC-35 with respect to the dating of vendor invoices.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated:

This error has occurred when invoices were attached to letters and the letters were stamped, but not the invoices. I have directed staff to see that invoices are stamped as well as the letters.

FINDING 10 - Risk Management did not adequately document property loss claim amounts.

Risk Management does not have adequate controls to ensure that property loss transactions are properly supported. On March 10, 1995, Risk Management processed a claims payment from the Brevard County Sheriff for \$7,569.49 (\$8,069.49 less \$500 deductible) for lightning damage at the Sharpes Detention Center. However, our review of the supporting documentation indicated that the damage sustained totaled \$10,008.09. Because Risk Management had not documented its verification of the total claim with the Sheriff, they were unable to explain the differences noted. To ensure public accountability by reliable records, transactions should be properly documented.

RECOMMENDATION - We recommend Risk Management implement controls to ensure that property loss transactions are properly documented. Specifically, we recommend Risk Management document the verification of claim amounts with the claimants.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . In the future I will see that departments with property losses are required to state in writing the amount of the total loss claimed and how the amount was arrived at for comparison to the miscellaneous bills submitted . . .

FINDING 11 - Two contracts did not require proof of insurance.

The contract with Circles of Care, Inc., requires professional liability insurance with limits no less than \$1,000,000 per claim and \$3,000,000 annual aggregate. The contract with Cost Care, Inc., requires professional liability insurance in a minimum amount of \$1,000,000. However, the contracts do not require that proof of insurance be provided to Risk Management. Without such a provision, Risk Management cannot be assured that insurance has been obtained which would minimize the County's liability.

RECOMMENDATION - We recommend Risk Management seek approval from the Board to amend the contracts with Circles of Care, Inc., and Cost Care, Inc., to include a provision that requires each to provide proof of insurance. We also recommend Risk Management include this provision in all future contracts which require insurance.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . In the future we will collect the insurance certificates for any contracts which require the contractor to carry specific insurance.

FINDING 12 - Payments on behalf of an employee were not properly authorized.

We noted that the Board did not approve payment of the Health/Wellness Officer's annual premiums for a personal \$3,000,000 aggregate professional liability insurance policy with Transamerica Insurance Company. Further, a Board-approved agreement does not exist with this employee covering this payment. According to Risk Management, this employee performs this service only during the course of her employment. However, the policy represents an additional employee benefit outside of that granted to all other employees which should require Board approval. Without proper authorization of transactions, the risk of improper payment of expenditures is not minimized. Further, the continuous payment of this benefit sets a precedent which may not be the intention of the Board.

RECOMMENDATION - We recommend Risk Management seek approval from the Board for the payment of employee benefits not offered to all employees. Specifically, we recommend Risk Management obtain approval from the Board for payment of the Health/Wellness Officer's professional liability insurance premiums.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . The policy has been cancelled and we have requested a return of any refundable premium.

(Unresolved Prior Audit Finding)

FINDING 13 - Sample results show a marked rate of claims processing errors.

Our audit report of the Brevard County Government Group Health Insurance Plan (hereinafter referred to as the "Plan"), dated March 1, 1994, noted weak internal controls in the processing of claims by Gallagher Bassett Services, Inc., the Plan Administrator. We recommended procedures and controls be strengthened to ensure that claims are correctly processed. One alternative for consideration was an amendment to the agreement requiring a performance standard guarantee and specifying periodic recovery of fees if the claim administration error rate exceeds a contractual standard.

Although Gallagher Bassett Services, Inc., no longer administers the Plan, it currently administers the self-insured dental health and mental health programs. The current contract was not amended to include our recommendations nor were other efforts made to strengthen internal controls. This condition does not minimize the risk of incorrect payment of claims.

RECOMMENDATION - We again recommend Risk Management strengthen procedures and controls to ensure that claims are correctly processed. One alternative for consideration is an amendment with Gallagher Bassett to require a performance standard guarantee and specifying periodic recovery of fees if the claim administration error rate exceeds a contractual standard.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . In their subsequent proposals for continuing medical claims services GB offered performance guarantees. However, they were not awarded any new contracts, and the old contract was reduced to services for dental and mental health claims effective January 1, 1995. Since January 1, 1996, they have processed only mental health claims, and the contract will terminate at the end of this year. Contracts negotiated with all vendors for health insurance benefits beginning January 1, 1997, include numerous performance guarantees.

Other

FINDING 14 - A minimum rating of insurance providers was not established.

BCC-24, Procurement, does not require a minimum acceptable rating (from an established independent rating service) of insurance companies doing business with Brevard County. For fiscal year 1995, the Board paid \$1,221,357 in premiums for ten property and liability insurance policies. Although nine providers were rated at least "A-" by Best's Ratings, Riscorp Property and Casualty Insurance Company, was not assigned a rating category due to insufficient operating experience. Although certain exceptions may be warranted (sources of reinsurance in the international market are not rated by Best), a minimum required rating would provide the

Board with some assurance that insurance providers have the financial strength and ability to meet their obligations to policyholders.

RECOMMENDATION - We recommend Risk Management seek direction from the Board on a minimum acceptable rating (when warranted) of insurance companies doing business with Brevard County.

MANAGEMENT RESPONSE - In the reply (see Exhibit A) dated November 18, 1996, Gerry Jacobs, Risk Manager, Risk Management, stated, in part:

. . . We are agreeable to establishing insurer rating standards and, under appropriate circumstances, to request waivers from the Board of County Commissioners.

SUMMARY

We held an exit conference on November 4, 1996, during which we discussed the audit report with Tom N. Jenkins, County Manager; Frank Abbate, Director of the Office of Human Resources and Gerald N. Jacobs, Risk Manager. We have attached Risk Management's formal reply to the audit report as Exhibit A.

Respectfully submitted,

SANDY CRAWFORD
CLERK OF THE CIRCUIT COURT

Richard L. Scoles, C.P.A., C.I.A.
Chief Internal Auditor

Auditor-in-charge:

Annette Clark, C.P.A., C.I.A.
Senior Internal Auditor

Attachment: Exhibit A

cc: Each Commissioner
Tom N. Jenkins, County Manager
Scott Knox, County Attorney
Frank Abbate, Director, Office of Human Resources
Gerald N. Jacobs, Risk Manager
Jim Giles, Chief Deputy Clerk
Steve Burdett, C.P.A., Finance Director

[Exhibit A]
BREVARD COUNTY BOARD OF COUNTY COMMISSIONERS
OFFICE OF HUMAN RESOURCES
RISK MANAGEMENT

Phone: 633-2037

Fax: 633-2036

DATE: November 18, 1996

TO: J. Carl Smith, C.P.A., C.G.F.M., Chief Internal Auditor

THROUGH: Tom N. Jenkins, County Manager

Frank B. Abbate, Office of Human Resources Director

FROM: Gerry Jacobs, Risk Manager

RE: FORMAL REPLY TO AUDIT FINDINGS

FINDING 1 - SOFTWARE LICENSES

It was explained at the time of the audit that some computers had been moved around within the Office of Human Resources, more than once. In doing so, some licensed programs were inadvertently left on the machines and separated from the software manuals and papers and some programs were apparently transferred to replacement computers. Those programs were not even being used. This is the probable explanation. As the audit states, the situation was corrected at that time. Responsibility for monitoring all computer software in Human Resources has been centralized. There is no evidence of any deliberate efforts by staff to intentionally violate copyright laws.

FINDING 2 - SECURITY AND PRIVACY

Access to the workers' compensation files is controlled. During the working day the files are never unattended and after hours the office is locked. The 1995 Florida Statutes, section 440.125, provides that medical records and bills are confidential and exempt from the provisions of section 119.07(1) and section 24 (a). There are no statutory requirements for locked file cabinets. However, the workers' compensation file cabinets have now been equipped with locks by Facilities Maintenance. Due to the small confines of the Risk Management office, the files, which are in constant use throughout each work day, never go more than 25 feet from the file cabinet and the file cabinets are in full view of the few staff who use them throughout the day. Due to the extensive use of the files it is not practical to constantly be signing files in and out, and it is highly unlikely that an unauthorized person could access them without notice by the staff.

As for confidentiality of conversations, I agree that the current Risk Management office space is inadequate to its functions. Last year we were authorized to expand office space, but that was delayed. Now we are scheduled to move to another building, which will provide an opportunity to correct the problem. I strongly endorse the recommendation for expanded office space for the workers' compensation area - and for the group insurance area - to protect confidentiality.

FINDING 3 - SUPPORTING DOCUMENTATION FOR INSURANCE COVERAGE & ELIGIBILITY TESTS

A. The three or four inches thick computer runs we obtain from Property Control periodically, to support our representations to property insurance underwriters about the amount of property to be insured, are of very limited interest after the insurance year has ended. In September, 1996 I was requested to produce the property run for the insurance year ended September 30, 1995. The amount of blanket coverage obtained for that year is specified in the property insurance policy, and I demonstrated that the amount was reasonable, based on the 1996 computer runs in my office. However, since the 1994-95 period of coverage was closed, the computer run on which it was based, circa July, 1994, had no further value for insurance purposes and had been discarded. Risk Management had not been previously advised that this computer run from the property records data base would be considered a record that should be preserved.

According to Property Control, they maintain a computer record as of each October 1 going back to the previous fiscal year. Information Systems has informed me that they will amend their procedure to save this database for five years. I understand from your comments at the exit interview that this will satisfy your requirement.

B. The eligibility tests are performed periodically by our group health insurance staff by comparing computer lists of participants produced by the vendor to a listing from our payroll records. After corrections were made and reported to the vendor these lists were also discarded as having no further use for insurance purposes. We were not previously advised that these lists would be of any interest to auditors after corrections were made. Eligibility lists will be preserved in the future. As for written procedures for checking eligibility, I will direct staff to set their methods down in writing for use by the auditors.

FINDING 4 - BOARD APPROVAL OF CONTRACTS

A. The agreement with Dr. Mills for an extension of Medical Director services to Health & Wellness was approved on the Board agenda 10/22/96. An RFP for Medical Director services has been authorized by the Board for Public Safety and will include services to Health & Wellness.

B. The amended agreement with Gallagher Bassett for reduced services was the outcome of parallel decisions for health insurance changes approved by the Board. (See the attached agenda items for 9/21/93 renewing the GB claims service contract, including dental claims services, the 9/20/94 agenda item placing medical benefits with Humana, and the 10/04/94 agenda item asking the Board to make a choice between a plan administered by Circles of Care and continuation of the current plan utilizing GB claims services - they chose the latter.)

The 10/04/94 agenda item specifically referenced GB and their service fee of \$2.25 for continuation of mental health claims services as part of the cost of continuing the current mental health benefits. It did not specify the rate for dental claims service fees. There was no feasible alternative to accepting the small rate increase, as the vendor had to be in place 01/01/95 and there had never been any interest expressed by the Board in moving the dental program. The rate

increase resulted from GB's action subsequent to the Board decision to replace GB medical claims services with the Humana program. (The dental claims services had been an adjunct to GB's medical claims services and had been priced on that basis.)

C. To the best of my knowledge, all matters connected with the bond issue were handled entirely by the Finance Department. The loan agreement with the Florida Liability Insurance Commission was part of the F.A.C.T. program and financed the County's initial entry into the program in 1988. Apparently, in 1992 the bonds were refinanced at a better interest rate. At this time the bond issue has been retired. Therefore, Risk Management did not have the document in its possession.

The original contracts database was oriented towards construction contracts and was not suited to service contracts associated with Risk Management. The Risk Management contracts were updated in the contract data system in mid-1995 and have been maintained since that date. Previously, the person assigned to this responsibility was involved with the Contract Monitoring Improvement Team and was waiting for implementation of recommended changes to the system to accommodate insurance contracts. However, the revisions were not made within the anticipated time frame. As a result, the updates to Risk Management contracts were not made until 1995.

FINDING 5 - AUDIT CLAUSE DELETED FROM CONTRACT

The amendment to the contract with Gallagher Bassett Services in January 1, 1995 was to reduce services, as discussed in Finding 4B. There was no intention by either party to limit the County's right to audit the GB claims services. A standard provision in any TPA contract, and included in this contract, is that the client owns the records, and the amendment does not delete that provision. Therefore, I believe the County is automatically entitled to access them. (At this time they are preparing to ship us all of the records, since their contract terminates at the end of this year.) In the future, we will insist upon clear language in all service contracts providing for audit privileges.

FINDING 6 - ACCIDENT REPORTS NOT FILED TIMELY

It is clearly the responsibility of the departmental supervisor to file the "Supervisor's Report of Accident" form. Reports are frequently tardy in being submitted to Risk Management. Risk Management and the claims adjusters routinely contact the department for additional information pertinent to a claim when such information is needed. We much prefer to contact the supervisor for additional information in a positive manner, since maintaining a rapport with the departments is essential to our mission. The intended primary use of the report is for departmental safety programs. This finding is a deficiency of the reporting departments, and not Risk Management.

The reference to the fines attached to late filings of "Notice of Injury" forms (a state workers' compensation form) is a more significant concern, but has not been a frequent problem. We continually remind the departments of the penalties and that they will be assessed to their department.

FINDING 7 - COMPUTER LOCATIONS

No computers are missing from the office. In an effort to stretch resources computers have often been moved from Risk Management to Safety & Wellness or Personnel within the same office. The records were corrected at the time of the audit and are now centrally maintained and updated.

FINDING 8 - RECONCILING THE GENERAL LEDGER

Risk Management has relied upon Finance to disburse the amounts certified to them for payment. Due to staff limitations, and the many and varied demands placed upon Risk Management, checking the monthly ledger statements to see that Finance made the proper disbursements is not achievable with existing staff resources. It is recognized that making monthly verification of revenues and disbursements is a sound practice and this will be undertaken to the extent staff is available.

FINDING 9 - INVOICES NOT DATED WHEN RECEIVED

This error has occurred when invoices were attached to letters and the letters were stamped, but not the invoices. I have directed staff to see that invoices are stamped as well as the letters.

FINDING 10 - JAIL PROPERTY CLAIM

I have reviewed the file referenced and I found a tally sheet prepared at the time by the claims specialist. However, in reviewing the basic invoices and purchase orders it was not apparent how either the original figure or the audit figure was arrived at. I understand that the numbers were discussed with Facilities at the time of the claim, but obviously were not fully explained in our permanent record. (The various bills submitted had been revised manually, did not all tally up to the purchase orders, and were poor copies. An explanation from the department was necessary to determine which figures were pertinent.) The paid figure appears to me to be more credible than the audit figure. If we substantially underpaid this claim, as the audit finds, I believe that the department would have complained.

It is normal claims practice to put the burden of proof on the claimant. In the future I will see that departments with property losses are required to state in writing the amount of the total loss claimed and how the amount was arrived at for comparison to the miscellaneous bills submitted. I have noticed that departments submitting claims usually do this in their own interest.

FINDING 11 - TWO CONTRACTS DID NOT REQUIRE PROOF OF INSURANCE

This is one of the contract provisions that Risk Management commonly requires in contracts reviewed for other departments. The two contracts cited, Circles of Care and Cost Care, will terminate at the end of the year. Circles of Care is audited by the state and required to carry the insurance as part of their licensing. In the future we will collect the insurance certificates for any contracts which require the contractor to carry specific insurance.

FINDING 12 - PAYMENTS FOR INDIVIDUAL PROFESSIONAL LIABILITY INSURANCE ON HEALTH AND WELLNESS OFFICER

This liability insurance policy has been in effect for 13 years and had always been paid for by the County to cover the special professional risks associated with advanced nursing services. The policy now duplicates coverage that is afforded under our current, broader liability insurance program purchased in October, 1996. (The individual policy included higher limits than the County's F.A.C.T. program.) The policy has been cancelled and we have requested a return of any refundable premium.

FINDING 13 - 1994 AUDIT RECOMMENDATIONS FOR GALLAGHER BASSETT SERVICES

It was a cost/benefit decision not to undertake to renegotiate specific performance guarantees for a contract that was winding down. (GB's medical claims services terminated at the end of 1994.) GB's cooperation in maintaining the County on their claims system and providing continuity of service far outweighed anything to be gained by this issue. The finding should reflect this. The 1994 audit report was thoroughly reviewed and discussed with GB at the time. (GB vigorously disputed the audit findings and produced their own figures that showed a high level of accuracy in claims payments.)

In their subsequent proposals for continuing medical claims services GB offered performance guarantees. However, they were not awarded any new contracts, and the old contract was reduced to services for dental and mental health claims effective January 1, 1995. Since January 1, 1996 they have processed only mental health claims, and the contract will terminate at the end of this year. Contracts negotiated with all vendors for health insurance benefits beginning January 1, 1997 include numerous performance guarantees.

FINDING 14 - MINIMUM RATING OF INSURANCE PROVIDERS

A minimum acceptable rating for insurance companies may depend on the availability of coverage in the market and rates offered. Except in special circumstances, we have required a Best's rating of no less than "A-". (According to the Best's rating guide there are only small differences between "A-", "A", "A+" and "A++".) I do not recommend limiting competition within that range. Some significant sources of reinsurance in the international market have no Best's rating.

The audit reference to Riscorp, an unrated company, illustrates the point. Riscorp was used for the first \$75,000 layer of workers' compensation reinsurance above our desired retention of \$275,000 per claim. (Our principal reinsurer, Safety National, would not write a retention below \$350,000 per claim.) At that time Riscorp was the only company our Broker could contract to write that coverage. At this time the workers' compensation insurance market has changed and we currently have a \$250,000 per claim retention and only one insurer, which is Best's rated "A++".

We are agreeable to establishing insurer rating standards and, under appropriate circumstances, to request waivers from the Board of County Commissioners.