

DEPARTMENT OF FINANCIAL SERVICES

**DIVISION OF RISK MANAGEMENT
STATE EMPLOYEE WORKERS' COMPENSATION**

Operational Audit



CHIEF FINANCIAL OFFICER

Pursuant to Article IV, Sections 4(c) and 5(a) of the State Constitution, the Chief Financial Officer is an elected member of the Cabinet and serves as the chief fiscal officer of the State. Pursuant to Section 20.121(1), Florida Statutes, the Chief Financial Officer is the head of the Department of Financial Services. During the period of our audit the Honorable Jeff Atwater served as Chief Financial Officer.

The audit team leader was Frank Belt, CPA, and the audit was supervised by Mary Stewart, CPA. Please address inquiries regarding this report to Lisa Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 412-2831.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF FINANCIAL SERVICESDivision of Risk Management
State Employee Workers' Compensation**SUMMARY**

This operational audit of the Department of Financial Services (Department) focused on actions taken by the Division of Risk Management (Division) to correct deficiencies related to the administration of State employee workers' compensation disclosed in our report No. 2012-067, as well as in finding Nos. 9 through 12 of our report No. 2012-071. Our audit disclosed the following:

Finding No. 1: The Division's process for monitoring the third-party administrators engaged to provide State employee workers' compensation case management administrative services and pharmacy benefits management services continues to need improvement.

Finding No. 2: Application controls for STARS, the information system utilized by the Division to account for State employee workers' compensation claims data, and other Division controls were not always sufficient to prevent and detect improper payments or to ensure that required reports were timely completed and filed.

Finding No. 3: Division staff, by inadvertently circumventing key input controls, uploaded duplicate claim information into STARS.

Finding No. 4: The Division deferred the required competitive procurement procedures by entering into multiple extensions of the STARS contract.

BACKGROUND

The Department of Financial Services (Department), Division of Risk Management (Division), acts as the State Government's insurance company by administering a program of risk management that provides self-insurance for, among other coverages, State employee workers' compensation.¹ Within the Division, the Bureau of State Employee Workers' Compensation Claims (Bureau) is responsible for the administration of all workers' compensation claims filed by State employees² who are injured on the job.

To provide State employee workers' compensation case management administrative services and a pharmacy benefits management program, the Division entered into agreements with various third-party administrators (TPAs). The case management administrative services included the establishment of a network of health care providers, intake services, clinical case management, claim payment, medical bill review, utilization review, and quality assurance. The pharmacy benefits management program included the establishment of a Statewide network of retail pharmacies, a mail-order prescription program, educational materials, claims processing, and concurrent and retrospective drug utilization reviews. As shown in Table 1, the TPAs processed workers' compensation claims totaling approximately \$90.9 million during the period July 2011 through January 2013.

¹ Chapter 284, Florida Statutes.

² Covered employees include individuals employed by State agencies and State universities and volunteers at those entities.

**Table 1
Third-Party Administrators
Summary of State Employee Workers' Compensation Claims
For the Period July 1, 2011, Through January 31, 2013**

Third-Party Administrator	Services Provided	Contract Term	Paid Claim Amounts
OptaComp	Workers' compensation case management administrative services for employee claims reported on or after January 1, 2009.	January 1, 2009, to December 31, 2013	\$66,195,553
CorVel Healthcare Corporation (CorVel)	Workers' compensation case management administrative services for employee claims reported to CorVel on or before December 31, 2008.	January 1, 2009, to December 31, 2015	9,473,304
Cypress Care Inc.	Pharmacy benefits management program for workers' compensation claimants for employee claims before July 1, 2013.	January 1, 2009, to June 30, 2013	15,221,726
Total Claims Paid			\$90,890,583

Source: Department contract files and Florida Accounting Information Resource Subsystem (FLAIR) records.

Each TPA uses its own information technology (IT) system to pay and administer claims and then submit selected claims data to the Division. Division staff load TPA-submitted claims data, including information such as claimant name, amount paid, provider name, and date of service, into STARS. STARS is the risk management information system utilized by the Division to account for workers' compensation claims data, as well as the data for other types of claims. The Division utilized information from STARS to calculate the amounts due to each TPA and the information also served as the basis for long-term liability amounts recorded in the State's accounting records, FLAIR. During the period July 2011 through January 2013, the Department's Division of Information Systems (DIS) managed and maintained the STARS infrastructure and the Department contracted with a vendor for the related software licenses, maintenance, support, and help desk services.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: TPA Monitoring

Effective contract management requires the monitoring of contractor performance to determine compliance with contractual provisions and to provide a means for early detection of potential performance problems. To demonstrate effective contract management, monitoring procedures, plans, and activities, including evaluations of data submitted by third-party administrators (TPAs) and periodic on-site monitoring visits, should be documented in Division of Risk Management (Division) records.

In our report No. 2012-067, finding No. 1, we noted that the Division did not adequately monitor the TPAs engaged to provide State employee workers' compensation case management administrative services and pharmacy benefits management. For the period July 2011 through January 2013, we performed follow-up tests of the Division's monitoring of the three State employee workers' compensation TPAs and found that, based on available documentation, monitoring deficiencies persisted. Specifically:

- Our follow-up tests disclosed that, although required by Division policies and procedures, the Division had not performed workers' compensation contractor payment audits quarterly.³ The audits were to test from

³ Division Policy and Procedure Number 3.03 (formerly Number 3.33), *Negative Payment Confirmations for Workers' Compensation Medical Case Management Contracts*.

Division records a statistically valid selection of TPA claim payments made to providers. The payments were to be tested by sending negative confirmation letters to the applicable providers requesting that they notify the Division if the selected payment was not received, was received erroneously, or if there were any other discrepancies related to the payment. Our tests disclosed that the Division had not performed audits for five of the seven calendar quarters included in the period July 2011 through January 2013. For the quarters ended September 30, 2012, and December 31, 2012, the Division had performed payment audits; however, the audits were based on a small, random selection of claim payments rather than a statistically valid selection and were not completed until April 2013 and June 2013, respectively.

- The pharmacy benefits management program contract between the Division and Cypress Care Inc. (Cypress) provided that the Division's reimbursements to Cypress for pharmaceuticals be based on the drugs' average wholesale price (AWP),⁴ less a discount, plus a dispensing fee. Specifically, the reimbursements for brand-name drugs were to be based on the drugs' AWP, less 2 percent, plus a \$3 dispensing fee and the reimbursements for generic drugs were to be based on the AWP, less 6 percent, plus a \$3 dispensing fee. In our report No. 2012-067, finding No. 1, we noted that the Division had not established policies or procedures to evaluate the amounts paid to Cypress, nor had the Division performed procedures to evaluate the prices paid for pharmaceuticals. Our follow-up tests found that, while the Division had amended its contract with Cypress to include how repackaged drugs would be priced and the source to be used for the AWP, the Division still had not established policies or procedures to evaluate the amounts paid to Cypress. Additionally, according to Division management, the Division did not verify that the drug prices paid by the State were calculated in accordance with contract terms.

The contract also provided that if savings were identified using a stipulated alternative calculation, the Division would be entitled to a rebate. According to Division management, Cypress had submitted an analysis showing that the Division was not owed a rebate; however, the Division was unable to provide a copy of the analysis in response to our audit request.

- The Division had not established a specific policy or procedure addressing on-site monitoring of the TPAs, nor had the Division conducted any on-site TPA monitoring. The Division had, however, contracted with an accounting firm to perform a diagnostic review of one TPA's (OptaComp's) payment and bank reconciliation processes. In a report dated June 29, 2012, the accounting firm concluded that OptaComp's processes had improved significantly since a prior review, but also noted opportunities for improvement. In response to our audit inquiry, Division management indicated that substantial follow-up with OptaComp had been performed; however, the Division was unable to provide documentation of its review of the accounting firm's report or any actions taken to address the report's recommendations.
- The Division did not include in the TPA contracts a clause requiring the provision of an independent service auditor's report⁵ to describe and provide an assessment of the effectiveness of relevant TPA internal controls. While the Division had requested and received service auditor's reports from the three TPAs which disclosed TPA claims processing system control deficiencies, no documentation was available to evidence the Division's review of the reports or that any follow-up actions had been taken. In response to our audit inquiry, Division management indicated that a cursory review of the reports had been conducted and that a more detailed review would be performed in July and August 2013.

While the Division had taken some actions to enhance its TPA monitoring, absent the establishment of an effective monitoring process, Division management cannot be reasonably assured that relevant TPA internal controls are in place and functioning effectively or that the TPAs are operating in compliance with contract terms and that service outcomes are being achieved. Additionally, Division management lacks assurance that errors or fraud, should they occur, will be timely detected and properly addressed.

⁴ AWP is calculated by an independent commercial publisher using drug pricing information obtained from manufacturers, distributors, and other drug suppliers.

⁵ A service auditor's report, as described by the American Institute of Certified Public Accountants, Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*, provides information and auditor conclusions related to a service organization's controls. Service organizations make service auditor's reports available to user organizations to provide assurances related to the effectiveness of the service organization's relevant internal controls.

Recommendation: We recommend that Division management continue efforts to fully implement a comprehensive, effective TPA monitoring process. Such a process should include, among other things, routine payment audits, on-site monitoring, and the receipt and review of independent service auditor's reports.

Finding No. 2: STARS Data and Reporting Controls

As described in the **BACKGROUND** section of this report, the Division utilized STARS to administer and process State employee workers' compensation claims. As part of our audit we evaluated the adequacy of Division data and reporting controls, including those established for STARS. Our audit tests disclosed that the STARS application controls and other Division controls were not always sufficient to prevent and detect improper payments or to ensure that required reports were timely completed and filed. Specifically:

- *STARS data controls.* Application controls include data edits and data validation checks to ensure that only valid transactions are processed. Our audit testing found that STARS lacked a data control to prevent the payment of claims received after the date of denial for controverted claims (i.e., initial claims that were denied).
- *Exception reports.* Controls to ensure the detection of data errors and irregularities include exception reporting and monitoring procedures. In July 2012, Division staff began generating monthly *Controverted Claims with Payment* exception reports from STARS. The reports were designed to identify potential improper payments and were provided to Division supervisors. According to Division management, the supervisors were responsible for reviewing the reports and ensuring that reimbursement was sought for any improper claim payments. However, Division management was unable to provide documentation evidencing any supervisory review of the exception reports. Additionally, we noted that the Division had not established written policies and procedures for recovering claim payments made after a claim had been controverted.

The Division's *Controverted Claims with Payment* exception reports for the period July 2012 through January 2013 disclosed 64 potential improper payments totaling \$41,845. We requested exception reports for the months of September 2012 and January 2013 and compared those reports to the exception reports that had been distributed to Division supervisors. Our comparison disclosed an additional 10 potential improper payments totaling \$1,406 which had not been included on the reports distributed to Division supervisors. In response to our audit inquiry, Division management indicated that the differences resulted from additional activity that occurred after the date the Division supervisors' reports were generated. Division management further stated that STARS did not include any missed activity from prior months on the reports run for subsequent months.

- *Required reporting.* IT output controls help ensure that reporting is accurate, complete, and timely and that output reports comply with applicable laws and regulations. Pursuant to rules⁶ established by the Department's Division of Workers' Compensation (DWC), Division claim administrators are to complete a *First Report of Injury* (DWC-1) form within 14 days after certain specified events. Additionally, for lost time and indemnity claims, DWC rules⁷ require claim administrators to file an *Electronic Sub-Annual (SA) Claim Cost Report* every 6 months after the date of injury until the claim is closed. According to Division management, STARS did not have an output control to ensure that the DWC-1 forms and *Electronic SA Claim Cost Reports* were timely completed and filed with the DWC.

To compensate for the lack of an output control in STARS, Division staff periodically produced a *Missing SA Report* that identified claims that were listed as past due for filing on the *Electronic SA Claim Cost Report*. Division staff were to review the *Missing SA Report* and follow up on the overdue filings to ensure that the missing reports were subsequently completed and filed. However, the *Missing SA Report* did not identify overdue claims when the DWC-1 form had not been timely completed. For example, our review of

⁶ Department of Financial Services, Division of Workers' Compensation Rule 69L-3.0045(2), Florida Administrative Code.

⁷ Department of Financial Services, Division of Workers' Compensation Rule 69L-56.3013(4)(a), Florida Administrative Code.

2,523 claims recorded in STARS during the period July 1, 2012, through January 31, 2013, disclosed that the Division had not submitted or timely completed 53 DWC-1 forms. In response to our audit inquiry, Division management verified that 7 of the 53 forms had not been filed and, as of July 15, 2013, ranged from 196 to 386 days late. The other 46 forms had been submitted from 39 days to 8½ years late. On average, approximately 10 months elapsed between the date the 46 DWC-1 forms were due and the dates they were submitted.

Similar instances were noted in our report No. 2012-071, finding Nos. 9 and 12. According to Division management, a new risk management information system was being procured that would contain automated functions to address the issues noted.

Absent the establishment of effective policies and procedures and the implementation of adequate STARS data and reporting controls, the risk is increased that benefits for controverted claims may be improperly paid and not timely detected or recovered, the accuracy and completeness of exception reports may be diminished, and required forms and reports may not be timely completed and filed in accordance with applicable rules.

Recommendation: We recommend that Division management establish policies and procedures for the recovery of improper claim payments. We also recommend that Division controls be enhanced to prevent or better facilitate the identification of improper payments and to ensure the timely filing of required forms and reports.

Finding No. 3: Claim Payments Data Controls

IT input controls, such as edit controls or periodic reconciliations between independent systems with the same input data, help to ensure that transaction data entered into a system is accurate, complete, and valid. The Division recorded transactions into STARS through uploads of claim data submitted electronically by the TPAs. While STARS had in place an input control designed to prevent the recording of duplicate claim transactions, as shown in Table 2, our review of STARS data disclosed that duplicate claim data, including payment information, had been uploaded on several occasions during the period April 1, 2011, through February 28, 2013.

**Table 2
Duplicate Claim Payments Data Recorded in STARS
From April 2011 Through February 2013**

Transaction Date	Duplicate Claim Payments	
	Number	Amount
February 1, 2013	2,562	\$228,849
February 8, 2013	342	97,421
February 15, 2013	219	49,544
Various Dates ^a	202	19,264
Totals	<u>3,374</u>	<u>\$395,146</u>

^a Includes 22 dates - 21 dates from April 1, 2011, through January 31, 2013, and February 6, 2013.

Source: STARS.

In response to our audit inquiry, Division management stated that Division staff had inadvertently overridden the input control, allowing STARS to accept duplicate claim transactions. Division management also indicated that claim payments data recorded in STARS had not been reconciled to claim payments recorded in the State’s accounting records, FLAIR. Such reconciliations, if timely and properly performed, would help detect any input control overrides and better ensure the accuracy, completeness, and validity of the STARS data. Our review of Division

records disclosed that, while STARS showed duplicate claim payments data, the claims had not actually been paid twice.

Absent adherence to established input controls, the risk is increased that Division management may utilize inaccurate data for reporting or decision making and that, potentially, duplicate claim payments may be made. In addition, without effective reconciliation procedures, the Division has less assurance that duplicate claim payments will be timely detected.

Recommendation: We recommend that Division management take appropriate steps to prevent the override of STARS input controls. Additionally, we recommend that the Division periodically reconcile claim payments data recorded in STARS to claim payments data recorded in FLAIR.

Finding No. 4: STARS Contract

State law⁸ establishes uniform procedures which are to be utilized by State agencies in managing and procuring commodities and contractual services. State law⁹ further establishes that fair and open competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically.

Pursuant to State law,¹⁰ contracts for commodities or contractual services may be renewed for 3 years or the term of the original contract, whichever period is longer. State law¹¹ also provides for one extension of a contractual services contract, for a period not to exceed 6 months, unless the failure to meet the criteria set forth in the contract is due to events beyond the control of the contractor.

As part of our audit, we reviewed Division contract documentation related to STARS. The Division competitively procured contractual services for STARS through a 5-year \$2.446 million contract that was initially executed in 2003. Pursuant to the terms of the contract, the contractor was to provide software licenses, maintenance, support, and help desk services. Our audit tests disclosed that, in addition to renewing the contract for 2 years, the Division had executed six 6-month STARS contract extensions since entering into the original contract on November 4, 2003. However, there was no available documentation to demonstrate that extending the contract for longer than 6 months was necessary because of a failure to meet the contract criteria due to events beyond the contractor's control. As shown in Table 3, in total, the contract, amendments, renewal, and extensions have, thus far, resulted in a contract term of 10 years and provided for payments to the contractor totaling \$4,292,910.

⁸ Chapter 287, Florida Statutes.

⁹ Section 287.001, Florida Statutes.

¹⁰ Section 287.057(13), Florida Statutes.

¹¹ Section 287.057(12), Florida Statutes.

**Table 3
STARS Contract Document Amounts and Periods Addressed**

		Period Addressed	
Contract Document	Amount	Beginning	Ending
Original Contract	\$ 2,445,800	November 4, 2003	November 3, 2008
Contract Amendment No. 1	33,900	April 20, 2006	June 30, 2007
Contract Amendment No. 2	66,970	November 4, 2008	November 3, 2010
Contract Amendment No. 3	100,218	November 4, 2008	November 3, 2010
Contract Renewal	552,000	November 4, 2008	November 3, 2010
Contract Extension No. 1	161,856	November 4, 2010	May 3, 2011
Contract Extension No. 2	161,856	May 4, 2011	November 3, 2011
Contract Extension No. 3	161,856	November 4, 2011	May 3, 2012
Contract Extension No. 4	179,903	May 4, 2012	November 3, 2012
Contract Amendment No. 4	21,275	November 4, 2012	May 3, 2013
Contract Extension No. 5	203,638	November 4, 2012	May 3, 2013
Contract Extension No. 6	182,363	May 4, 2013	November 3, 2013
Contract Amendment No. 5	21,275	May 4, 2013	November 3, 2013
Total	\$4,292,910		

Source: Division contract files.

As State law limits the number of contract extensions, and given the Division’s decision in 2008 to renew the contract for only 2 years, it was not apparent that the Division had the authority to extend the contract beyond May 3, 2011. In response to our audit inquiry, Division management indicated that the Division is currently procuring an application to replace STARS, with implementation tentatively scheduled to be completed before the end of the 2014-15 fiscal year. Division management also indicated that, until the new application is implemented, the Division intends to continue extending the existing STARS contract.

Deferring competitive procurement procedures by extending a contract beyond the limits established in State law increases the risk that the Division may not obtain the best services at the best price and may also reduce public confidence that contracts are equitably and economically awarded.

Recommendation: We recommend that Division management ensure that contracts are procured and managed in accordance with the requirements of State law.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the findings included in our report No. 2012-067 and finding Nos. 9 through 12 of our report No. 2012-071.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2013 through June 2013 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.

This operational audit focused on the Division of Risk Management's (Division's) actions to correct deficiencies related to the administration of the workers' compensation self-insurance program for the State of Florida. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in our report No. 2012-067 and finding Nos. 9 through 12 of our report No. 2012-071.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Interviewed Division staff, reviewed policies and procedures, and examined records to evaluate the effectiveness of Division procedures for monitoring third-party administrators.
- Interviewed Division of Information Systems staff, reviewed policies and procedures, and evaluated STARS controls to determine the adequacy of STARS data controls and reporting capabilities.

- Examined documentation related to 50 State employee workers’ compensation claims totaling \$7,584 and paid during the period July 1, 2011, through March 25, 2013, to determine whether the claims were adequately supported, allowable, paid in the correct amount and to the appropriate recipient, and properly recorded in STARS.
- Performed analytical procedures to identify potential duplicate payments to TPAs for State employee workers’ compensation claims
- Examined documentation related to the Division’s follow-up of 16 potential improper workers’ compensation controverted claim payments totaling \$4,350 noted on Division exception reports for the months of September 2012 and January 2013 to determine the adequacy and effectiveness of the Division’s payment monitoring controls and to evaluate the Division’s recovery procedures for improper payments.
- Examined documentation related to 249 claims made during January 2013 to determine whether the Division filed *Electronic Sub-Annual Claim Cost Reports* as required by Division of Workers’ Compensation (DWC) Rule 69L-56.3013(4)(a), Florida Administrative Code.
- Examined documentation related to 2,523 indemnity payments made during the period June 1, 2012, through January 31, 2013, to determine whether the Division timely completed and submitted a *First Report of Injury* (DWC-1) form to the DWC as required by DWC Rule 69L-3.0045(2), Florida Administrative Code.
- Examined STARS contract documentation to determine whether the contract was managed in accordance with the requirements of State law.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

In a response letter dated October 7, 2013, the Chief Financial Officer provided responses to our audit findings and recommendations. The letter is included as **EXHIBIT A** of this report.

EXHIBIT A
MANAGEMENT'S RESPONSE



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

October 7, 2013

Mr. David W. Martin
Auditor General
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, the enclosed response is provided for the preliminary and tentative audit findings included in the Auditor General's operational audit of the *Department of Financial Services, Division of Risk Management, State Employee Workers' Compensation*.

If you have any questions concerning this response, please contact Tom Kirwin, Inspector General, at (850) 413-4960.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeff Atwater for".

Jeff Atwater for

JA:rlg

Enclosure

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF RISK MANAGEMENT, STATE EMPLOYEE
WORKERS' COMPENSATION OPERATIONAL AUDIT

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 1: TPA Monitoring

The Division's process for monitoring the third-party administrators engaged to provide State employee workers' compensation case management administrative services and pharmacy benefits management services continues to need improvement.

Recommendation:

We recommend that Division management continue its efforts to fully implement a comprehensive, effective TPA monitoring process. Such a process should include, among other things, routine payment audits, on-site monitoring, and the receipt and review of independent service auditor's reports.

Response: We concur. The Division will continue in its efforts regarding the Division's contracts and monitoring processes. Additionally, to support and further enhance the TPA monitoring process, the Contract Monitoring Unit has added four positions.

Expected Completion Date for Corrective Action: To fully implement an enhanced comprehensive TPA monitoring system will require one and a half to two years, given that the Division has only recently received the additional staffing necessary for this purpose.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF RISK MANAGEMENT, STATE EMPLOYEE
WORKERS' COMPENSATION OPERATIONAL AUDIT

Finding No. 2: STARS Data and Reporting Controls

Application controls for STARS, the information system utilized by the Division to account for State employees workers' compensation claims data, and other Division controls were not always sufficient to prevent and detect improper payments or to ensure that required reports were timely completed and filed.

Recommendation:

We recommend that Division management establish policies and procedures for the recovery of improper claim payments. We also recommend that Division controls be enhanced to prevent or better facilitate the identification of improper payments and to ensure the timely filing of required forms and reports.

Response: We concur. The Division of Risk Management determined that limitations within STARS prevent the implementation of these types of system controls. Due to these limitations, the Division of Risk Management has implemented a process to provide a Controverted Claims with Payments Report and a Missing SA Report to staff for review on a periodic basis. Additionally, the Division of Risk Management is working with the Division of Information Systems to ensure compliance with these requirements in the future Risk Management Information System (RMIS) procurement.

Expected Completion Date for Corrective Action: The Division will be issuing a solicitation for new information system services in the near future. The tentative start date for the new system is in the spring of 2015. The new RMIS should provide the controls needed to ensure timely filing of forms and detection of improper payments. Until a new system is implemented the Division will continue to monitor payments and timeliness of filing by providing reports to staff. A policy and procedure for the recovery of improper claim payments on controverted claims will be implemented within the next six months.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF RISK MANAGEMENT, STATE EMPLOYEE
WORKERS' COMPENSATION OPERATIONAL AUDIT

Finding No. 3: Claim Payments Data Controls

Division staff, by inadvertently circumventing key input controls, uploaded duplicate claim information into STARS.

Recommendation:

We recommend that Division management take appropriate steps to prevent the override of STARS input controls. Additionally, we recommend that the Division periodically reconcile claim payments data recorded in STARS to claim payments data recorded in FLAIR.

Response: We concur. STARS system limitations prevented the implementation of appropriate controls to prevent the override of these system controls. Because of this limitation, the Division of Risk Management has moved the data input function to the Data Management Unit and will be implementing specific policies and procedures regarding input processes to prevent the recording of duplicate payments. Additionally, the Division of Risk Management is working with the Division of Information Systems to ensure enhanced data controls are included as requirements in the future Risk Management Information System (RMIS) procurement.

Expected Completion Date for Corrective Action: We will be implementing corrective action within the next six months.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF RISK MANAGEMENT, STATE EMPLOYEE
WORKERS' COMPENSATION OPERATIONAL AUDIT

Finding No. 4: STARS Contract

The Division deferred the required competitive procurement procedures by entering into multiple extensions of the STARS contract.

Recommendation:

We recommend that Division management ensure that contracts are procured and managed in accordance with the requirements of State law.

Response: We agree that contracts must be procured and managed in accordance with law. Subsection 287.057(12), F. S., specifically provides for more than one extension under certain circumstances. At a minimum the law is unclear, particularly as applied to the facts surrounding this particular procurement. The Department would support an effort to clarify the law.

The STARS contract is for an ongoing license agreement for software and services that are essential to the operation of the state self-insurance program. This software runs the state risk management systems providing, among other things, workers' compensation coverage for more than 200,000 employees and also links to the federal Medicare system. The Division is the largest workers' compensation insurer in the state of Florida, and cannot provide medical and indemnity benefits to injured workers without a fully-functioning IT system.

Well in advance of the STARS contract expiring, the Division went through the procurement process for a new contractor. There were only two bidders at that time, neither of whom could or would fulfill the requirements of the RFP. As a result, the Division began the process of procurement *ab initio*. Since the first procurement did not result in a viable vendor selection, the Department undertook substantial pre-procurement preparation efforts with the goal to publish an ITN that would appeal to a broader base of vendors and protect the best interest of the state. This process involved a complete business process mapping of the Division, and retention of KPMG to assist in the preparation of the Statement of Work. The Division expects to publish the ITN in early October. The extensions for this contract were necessitated by the lack of viable contracting options which appears to be contemplated within the requirements of this provision. As stated, after an initial Request for Proposals had been issued, only two vendors submitted proposals, both of which were entirely unacceptable to the Division.

Under these exigent circumstances, the only viable option was to extend the current contract until another solicitation could be issued and an acceptable vendor selected. The failure to extend would have resulted in the inability to pay claims, including medical care for the individuals covered by the program, which would, in itself, be in violation of law. Extending this contract until a new, viable contract is executed, allows the Division to continue to provide the statutorily-required benefits to individuals who were injured in the course and scope of their employment with the state. Accordingly, and for the reasons stated above, the Division was compelled to extend the existing contract in order to secure a vendor capable of providing the requisite software and services.

Expected Completion Date for Corrective Action: June 30, 2015