



CHIEF FINANCIAL OFFICER  
**JEFF ATWATER**  
STATE OF FLORIDA

April 7, 2014

The Honorable Jeff Atwater  
Chief Financial Officer  
The Capitol, PL-11  
Tallahassee, Florida 32399-0301

Dear Mr. Atwater:

As required by Section 20.055, Florida Statutes, I am providing the Department's six-month status report of corrective actions taken in response to Auditor General Report Number 2014-020, *Department of Financial Services Division of Risk Management State Employee Workers' Compensation* (published October 10, 2013).

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Teresa Michael".

Teresa Michael  
Interim Inspector General

TM:rlg

Attachment

cc: Robert Kneip, Chief of Staff  
Kathy DuBose, Coordinator, Joint Legislative Auditing Committee  
P.K. Jameson, General Counsel  
R.J. Castellanos, Director of Risk Management  
Charles Ghini, Chief Information Officer

**DEPARTMENT OF FINANCIAL SERVICES  
OFFICE OF INSPECTOR GENERAL**

**SIX-MONTH FOLLOW-UP REPORT  
STATUS OF CORRECTIVE ACTION**

<b>Reviewing Entity</b>	<b>Report</b>	<b>Report Title</b>	<b>Date Published</b>
Auditor General	2014-020	Department of Financial Services Division of Risk Management State Employee Workers' Compensation	October 10, 2013
<b>Finding No. 1:</b>	The Division's processes 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.		
<b>Recommendation</b>	Division management should 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.		
<b>Original Response</b>	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.		
<b>Six-month Follow-up:</b>	March 14, 2014		
<b>Responsible Division</b>	Division of Risk Management		
<b>Reported Status</b>	The Division continues to implement contract monitoring plans for its workers' compensation medical case management (MCM) and pharmacy benefits management (PBM) contracts. The Division awarded new contracts for MCM and PBM services and a new medical bill review (MBR) contract in an effort to segregate functions previously conducted by the MCM contractors. A single MCM contract, effective January 1, 2014, designates that provider payments be made by the Division rather than the contractor and requires monthly performance monitoring be reported by the contractor and verified by the Division. Additionally, the Division is in the process of completing quarterly audits of the payments made under the old MCM contracts and of the PBM payments made by the Division to ensure that prescription drugs provided under the contracts were priced according to the contract terms. An on-site monitoring visit for the new MCM contract is planned for April 2014. In addition, the Division developed a template for use in reviewing the contractor's independent service auditor's reports and requested the current reports for review. The Division has also been working diligently to fill the vacant positions in the Contract Monitoring Unit.		
<b>OIG Assessment</b>	<b>PARTIALLY COMPLETED.</b> Management has taken action to address some of the issues and recommendations. The OIG will continue to monitor this finding until such time as Division management can address the remaining issues.		

**DEPARTMENT OF FINANCIAL SERVICES  
OFFICE OF INSPECTOR GENERAL**

**SIX-MONTH FOLLOW-UP REPORT  
STATUS OF CORRECTIVE ACTION**

<b>Reviewing Entity</b>	<b>Report</b>	<b>Report Title</b>	<b>Date Published</b>
Auditor General	2014-020	Department of Financial Services Division of Risk Management State Employee Workers' Compensation	October 10, 2013
<b>Finding No. 2:</b>	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.		
<b>Recommendation</b>	Division management should 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.		
<b>Original Response</b>	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.		
<b>Six-month Follow-up:</b>	March 14, 2014		
<b>Responsible Division</b>	Division of Risk Management; Division of Information Systems		
<b>Reported Status</b>	The Division of Risk Management provides the Controverted Claims with Payments Report and a Missing SA Report to the Administrators in the Bureau of State Employee Workers' Compensation Claims for their review. Additionally, the Division of Risk Management continues to work with the Division of Information Systems to ensure compliance with these requirements in the Risk Management Information System (RMIS) procurement.		
<b>OIG Assessment</b>	<b>PARTIALLY COMPLETED.</b> Management has taken action to address some of the issues and recommendations. The OIG will continue to monitor this finding until such time as Division management can address the remaining issues.		

**DEPARTMENT OF FINANCIAL SERVICES  
OFFICE OF INSPECTOR GENERAL**

**SIX-MONTH FOLLOW-UP REPORT  
STATUS OF CORRECTIVE ACTION**

<b>Reviewing Entity</b>	<b>Report</b>	<b>Report Title</b>	<b>Date Published</b>
Auditor General	2014-020	Department of Financial Services Division of Risk Management State Employee Workers' Compensation	October 10, 2013
<b>Finding No. 3:</b>	Division staff, by inadvertently circumventing key input controls, uploaded duplicate claim information into STARS.		
<b>Recommendation</b>	Division management should 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.		
<b>Original Response</b>	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.		
<b>Six-month Follow-up:</b>	March 14, 2014		
<b>Responsible Division</b>	Division of Risk Management; Division of Information Systems		
<b>Reported Status</b>	The Division of Risk Management continues to conduct data imports that include a reconciliation of the data import file to the respective invoices. Additionally, a verification report process is run to ensure all records are imported and identifies records that do not import. The verification report is submitted to the vendor to facilitate file corrections and when necessary, resubmission. The Division of Risk Management continues to work with the Division of Information Systems to ensure enhanced data controls are included in the Risk Management Information System (RMIS) procurement.		
<b>OIG Assessment</b>	<b>PARTIALLY COMPLETED.</b> Management has taken action to address some of the issues and recommendations. The OIG will continue to monitor this finding until such time as Division management can address the remaining issues.		

**DEPARTMENT OF FINANCIAL SERVICES  
OFFICE OF INSPECTOR GENERAL**

**SIX-MONTH FOLLOW-UP REPORT  
STATUS OF CORRECTIVE ACTION**

Reviewing Entity	Report	Report Title	Date Published
Auditor General	2014-020	Department of Financial Services Division of Risk Management State Employee Workers' Compensation	October 10, 2013
<b>Finding No. 4:</b>	The Division deferred the required competitive procurement procedures by entering into multiple extensions of the STARS contract.		
<b>Recommendation</b>	Division management should ensure that contracts are procured and managed in accordance with the requirements of State law.		
<b>Original Response</b>	<p>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.</p> <p>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.</p> <p>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 <i>ab initio</i>. 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.</p>		



	<p>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.</p>
<b>Six-month Follow-up:</b>	March 14, 2014
<b>Responsible Division</b>	Division of Risk Management
<b>Reported Status</b>	<p>The Division is working to procure a Risk Management Information System (RMIS) to replace STARS and the contract is expected to be issued in May 2014. Due to the effort required during the design, development and implementation of the new RMIS, the Division does not expect the new RMIS to be operational until late summer of 2015. In order for the Division to continue with the statutorily mandated operations, contract extensions will be required for the existing STARS contract until the replacement RMIS is operational.</p>
<b>OIG Assessment</b>	<p><b>PARTIALLY COMPLETED.</b> As of March 2014, Division management has begun evaluations of vendors to replace the RMIS system. The OIG will continue to monitor this finding until such time as Division management can address the remaining issues.</p>