July 3, 2012

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 have enclosed the Department’s six-month status report of corrective actions taken in response to Auditor General Report Number 2012-067, *Department of Financial Services Division of Risk Management Monitoring of Third-Party Administrators* (published January 3, 2011).

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

Sincerely,

Ned Luczynski

NL:sll

Enclosure

cc: Robert Kneip, Chief of Staff
P.K. Jameson, General Counsel
R. J. Castellanos, Director, Division of Risk Management
Kathy DuBose, Coordinator, Joint Legislative Auditing Committee
SIX-MONTH FOLLOW-UP REPORT  
STATUS OF CORRECTIVE ACTION

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<th>Reviewing Entity</th>
<th>Report</th>
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| Auditor General  | 2012-067 | Department of Financial Services  
Division of Risk Management  
Monitoring of Third-Party Administrators | January 3, 2012 |

Finding No. 1
The Division did not adequately monitor third-party administrators engaged to provide workers' compensation case management administrative services and pharmacy benefits management.

Recommendation
We recommend the Division:
- Comply with its policies and procedures related to performing required payment audits, medical reimbursement audits, and audit tests of TPA reimbursements.
- Develop specific policies and procedures to require periodic audits of pharmaceutical claims paid by the Division's pharmaceutical benefit service provider.
- Perform on-site monitoring of all TPAs.
- Amend TPA contracts to require service auditor reports.
- Establish a database or obtain access to TPA data containing detailed information on claims paid.

Original Response
We agree the Division needs to strengthen its monitoring of third-party administrators (TPAs) and anticipate that a coordinated, long-term strategy will be required to accomplish this objective.

We plan to update and revise as appropriate the Division's policies and procedures regarding payment audits, medical reimbursement audits and audit tests of TPA reimbursements. We will also establish policies and procedures for periodic audits of pharmaceutical claims paid by the Division's service provider. The Division currently does not have the staff resources to conduct the reviews contemplated in the Division's policies and procedures. We will therefore evaluate our business processes and will realign staff duties and responsibilities to accommodate these reviews. Such realignment will be undertaken to the extent possible given on-going operational needs. If necessary, we will request additional staff resources or funding to contract for review services in the Department's next Legislative Budget Request.

Regarding on-site monitoring of the Division's TPAs we concluded that such monitoring could be conducted in conjunction with data mining activities. Obtaining access to detailed information on claims paid by the TPAs would permit the Division to conduct on-going monitoring of TPA activity without the expense of sending staff to remote locations for a period of time or contracting with outside parties for on-site monitoring services. We will therefore require TPA's to provide, or make such detailed data available in future contracts. The Division will also evaluate whether the current Risk Management Information System (RMIS) can be reconfigured to capture such data. We will incorporate requirements for such system capabilities in future contracts for RMIS services.
We also noted that establishing a requirement for service auditor reports, such as Statement on Standards for Attestation Engagements (SSAE) 16 Reporting on Controls of a Service Organization Type II audits are generally viewed as a replacement for conducting on-site testing. To this end, future TPA contracts will include a requirement for the TPA to conduct an SSAE 16 Type II audit annually during the life of the contract.

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<th>Six-month Follow-up:</th>
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<td>Division of Risk Management</td>
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| Reported Status      | As noted in our original response, the Division anticipated that a coordinated, long-term strategy would be required to strengthen monitoring of third party administrators (TPAs). We have undertaken certain initiatives and formulated longer-term plans, as discussed below.

**Contract Monitoring Unit.** The Division has established a Contract Monitoring Unit to monitor vendor compliance with contract terms and conditions, and to review contractor activity. The Unit consists of a Senior Management Analyst Supervisor, Audit Evaluation & Review Analyst, Registered Nurse Consultant and an Administrative Assistant II. We are in the process of advertising the Audit Evaluation & Review Analyst position and will begin extensive contract monitoring activities when that position is filled. The Division plans to request additional professional staff for this unit in the Department’s next Legislative Budget Request.

The Division has drafted revised Internal Policies and Procedures to align and consolidate certain monitoring duties within the Contract Monitoring Unit. These draft policies and procedures provide for the Contract Monitoring Unit to perform quarterly workers' compensation payment audits, monthly workers' compensation medical reimbursement audits, and quarterly audit tests of TPA medical reimbursements. We have also drafted a revised Internal Policy and Procedure regarding on-site monitoring of TPAs by Contract Monitoring Unit staff.

**Contract Monitoring Activities.** The Division contracted with a management consultant in Fiscal Year 2011-12 to review operations of the current medical case management TPA for the period January 1, 2009 through February 29, 2012. We also contracted for a review of the operations of two TPAs contracted to manage legacy claims. As of this writing, we are evaluating our consultant's final reports and will take action to ensure the TPAs implement any recommended corrective action. Contingent upon available funding, we plan to contract for operational reviews of the remaining TPAs in Fiscal Year 2012-13. We should also note that our Registered Nurse Consultant has been actively reviewing the performance metric reports submitted by the current medical case management TPA and has been working with the vendor to assist them in providing more reliable information on their performance metrics.

**Actions Related to the Pharmaceuticals TPA.** The Department is in the process of executing an amendment to the contract with Cypress. The amended contract defines how repackaged drugs are priced and defines the source used for average wholesale price. The Division will also require Cypress to provide a quarterly analysis regarding refunds due under contract terms. The Division plans to contract in Fiscal Year 2012-13 for an evaluation of the
methodology the TPA uses to price pharmaceuticals.

**Service Auditor Reports.** To the extent possible given available funding, the Division plans to contract for service audits of the Division's TPAs. We are currently obtaining estimates of the cost to contract in Fiscal Year 2012-13 for an SSAE 16 SOC 2 Type II audit of our current medical case management TPA. Future contracts will require TPAs to have such an audit performed annually throughout the contract term.

**Claims Information Database.** The Division is in the process of procuring a new Risk Management Information System. Requirements for the new system will include the capability to capture claims data sufficient to enhance the Division's ability to monitor and evaluate the appropriateness of payments and provide additional support for the detection of potentially fraudulent activity.

| **OIG Assessment** | OPEN. | Management has initiated actions to address the finding and recommendations. The OIG will continue to monitor the Division's progress in addressing the issues noted in the report. |