

**CITRUS COUNTY  
CLERK OF THE CIRCUIT COURT AND COMPTROLLER**

**Internal Auditing Services for  
County's Insurance Program**

**FINAL REPORT  
October 12, 2015**

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## CliftonLarsonAllen

October 12, 2015

Ms. Angela Vick

Citrus County Clerk of the Circuit Court and Comptroller

110 N. Apopka Avenue

Inverness, Florida 34450

Dear Ms. Vick:

As requested by the Citrus County Clerk of the Circuit Court and Comptroller (the Clerk and Comptroller), we have completed our engagement to evaluate selected business processes of the Citrus County (the County) Self Insurance Program (“SIP” or “the program”). The general objective of the engagement was to examine and evaluate the adequacy and effectiveness of the internal controls over the program to determine whether they are adequate and in compliance with established policies and procedures. The internal control areas evaluated include:

- **Control Area 1:** Existence of policies and procedures that provide an adequate control environment for the County’s SIP.
- **Control Area 2:** Compliance with established regulations.
- **Control Area 3:** Controls and evaluation of the County’s on-site health clinic.

We appreciate the assistance and contribution of management and staff of the County’s Human Resource Department staff, as well as Clerk and Comptroller staff.

Our report is intended solely for the Clerk and Comptroller’s management, the Board of County Commissioners of Citrus County (BOCC), and BOCC management, and is not intended for any purpose other than to assist you with the items mentioned above. Consequently, our report is limited for your information and use only and should not be used by anyone else. In addition, our report is based on

current circumstances. We have no responsibility to update our report for events and circumstances that occur after September 11, 2015.

Respectfully submitted,

**CliftonLarsonAllen LLP**

A handwritten signature in black ink, appearing to read "Christine M. Abell". The signature is fluid and cursive, with a long horizontal stroke at the end.

Christine M. Abell, CPA

Principal

602-604-3697

## **I. SCOPE AND METHODOLOGY**

The scope of this engagement covered the period from October 2013 to March 2015. CLA interviewed the following employees and external managers involved in the Self Insurance Program (SIP):

- Human Resources (HR) Director and Insurance Administrator and other HR personnel
- Management and Budget Director
- Chief Deputy Financial Services, Citrus County Clerk of the Circuit Court and Comptroller
- Representatives of CareHere, LLC (CareHere)
- Representatives of the Gehring Group

To evaluate the adequacy of internal controls, CLA assessed cost reports and analysis provided by the Gehring Group, the County's insurance program broker and consultant, and internal documentation maintained by the County's HR Department personnel. Analyses included the validation of proper authorization, tracing back to contract content, and data comparisons. CLA also verified the existence of an actuarial report required by state law and evaluated the results of these studies, and assessed the SIP budget protocols along with the role of the BOCC in this process.

Additionally, CLA evaluated the control environment surrounding the County's on-site health clinic through the analysis of the contract with CareHere, the health clinic's third-party management company. Further, CLA analyzed the Gehring Group cost and utilization benchmarking reports.

## **II. SUMMARY OF RESULTS**

We determined that the County maintains a reasonable level of control for ensuring that internal controls related to the County's self-insurance program are adequate. Management employs a series of approved checks and balances with frequent benchmarking reports and analysis to monitor the savings and costs associated with the program.

During the course of the engagement, CLA noted two observations related to the performance of the County's insurance program, and offered suggestions to further improve results. See Observations 1 and 2 on pages 10 and 15 respectively.

### **III. PROGRAM BACKGROUND**

- **County's Self Insurance Program**

Self-funded health care, also known as Administrative Services Only (ASO), is a self-insurance arrangement whereby the employer (Citrus County) provides health and/or disability benefits to employees with its own funds. In this health care model, the employer assumes the direct risk for benefits claims payments. The terms of eligibility and covered benefits are set forth in a plan document, which includes provisions similar to those found in a typical group health insurance policy. Unless exempted, such plans create rights and obligations under the Employee Retirement Income Security Act of 1974 ("ERISA").

In June 2009, the BOCC approved and authorized staff to proceed with a self-funded insurance program (SIP) for health insurance with Blue Cross Blue Shield (BCBS) of Florida as the fiduciary, network manager, and third-party claims administrator, and Highmark Life Insurance Company as its reinsurance carrier for large claims. BCBS of Florida was retained at the existing funded premium with no resulting increase.

The approval to implement the SIP was based on a recommendation made by the Gehring Group, the County's employee benefits insurance broker and consultant. In this role, the Gehring Group provides benchmarking metrics, on-going consulting and analysis on costs and expenses of the SIP versus traditional premium paying services, and analysis to assist in budgeting and forecasting of expenditures. The Gehring group helps management ensure that the SIP continually represents a savings to the Employer.

As the contracted third party administrator, BCBS assists in claims adjudication and payment. Additionally, BCBS provides access to preferred provider networks, prescription drug card programs, utilization review, and the stop loss insurance market. BCBS provides a monthly report detailing medical claims and pharmacy costs which the County uses in controlling costs (by shifting buying patterns).

As of June 2015, the County's SIP covers the BOCC and 550 employees, along with their spouses and children. The SIP also covers the Citrus County Clerk of the Circuit Court and Comptroller, the Supervisor of Elections and the Citrus County Property Appraiser. The HR Director noted that as of 10/1/2015 the plan enrollment was 674 individuals.

- **County’s Health Clinic**

In June 2011, the County entered into an agreement with CareHere LLC to supply a physician and nurse and other agreed-upon medical staff to provide certain medical services to County employees and/or their dependents at a County selected location (“the health clinic”). The health clinic is funded with the premiums paid by enrollees; and thus, its cost is not part of the SIP budget, the SIP reserves calculation, or the SIP’s administrative costs.

Through the contract with CareHere, the County targeted reduced health benefit expenses by:

- Lowering healthcare claims for medical services provided.
- Reducing prescription costs for dispensed medications.
- Proactively identifying and mitigating future high cost claims risks.

The following table shows the health clinic’s costs for the two years ending September 30, 2013 and 2014, as provided by management. Administrative costs are directly related to the contractual payments to CareHere to provide the services, charged on a per-enrollee basis and covers both care provided and pharmacy services. Operational costs are medical supplies, office supplies, a copier lease payment and software purchases, necessary to run the clinic.

**Table 1  
Health Clinic Costs**

<b>Month</b>	<b>Administrative Cost</b>	<b>Operational Cost</b>	<b>Total</b>
October 2012	\$43,738	\$783	\$44,521
November 2012	\$50,305	\$594	\$50,899
December 2012	\$41,283	\$799	\$42,082
January 2013	\$42,193	\$963	\$43,156
February 2013	\$44,604	\$578	\$45,182
March 2013	\$41,923	\$703	\$42,626
April 2013	\$44,138	\$596	\$44,734
May 2013	\$43,114	\$673	\$43,787
June 2013	\$53,315	\$799	\$54,114
July 2013	\$42,413	\$1,081	\$43,494
August 2013	\$42,688	\$1,195	\$43,883
September 2013	\$43,322	\$1,683	\$45,005
<b>FY 2013 totals</b>	<b>\$533,036</b>	<b>\$10,447</b>	<b>\$543,483</b>

**Table 1  
Health Clinic Costs (Continued)**

<b>Month</b>	<b>Administrative Cost</b>	<b>Operational Cost</b>	<b>Total</b>
October 2013	\$42,603	\$862	\$43,465
November 2013	\$48,360	\$1,206	\$49,566
December 2013	\$43,885	\$869	\$44,754
January 2014	\$38,112	\$552	\$38,664
February 2014	\$41,786	\$469	\$42,255
March 2014	\$38,318	\$1,004	\$39,322
April 2014	\$41,104	\$795	\$41,899
May 2014	\$44,333	\$411	\$44,744
June 2014	\$42,949	\$1,114	\$44,063
July 2014	\$53,625	\$2,405	\$56,030
August 2014	\$43,135	\$848	\$43,983
September 2014	\$41,413	\$1,706	\$43,119
<b>FY 2014 totals</b>	<b>\$519,623</b>	<b>\$12,241</b>	<b>\$531,864</b>
<b>FY 2013 and 2014 totals</b>	<b>\$1,052,659</b>	<b>\$22,688</b>	<b>\$1,075,347</b>

- **SIP financial summary**

Table 2 below includes a summary of the SIP's administrative costs for the two years ending September 30, 2013 and 2014 provided by management. As shown in the table, the average administrative cost per enrollee was approximately the same in both years.

**Table 2  
SIP's Summary of Administrative Costs**

<b>Administrative Costs - Total</b>	<b>FYE 09/30/2013</b>	<b>FYE 09/30/2014</b>
BCBS Administrative Services Only (ASO) payments	\$439,400	\$427,399
Highmark Life Insurance stop loss premium payments	\$377,049	\$407,996
Gehring Group payments	\$ 70,000	\$ 70,000
Total administrative costs	\$886,449	\$905,395
Total enrollees at fiscal year end	652	657
Average administrative cost per enrollee	\$1,360	\$1,378

Table 3 below includes a summary of SIP total costs and the reserve amount accumulated during each month within the audit period (October 2013 through March 2015). As shown in the table, approximately \$2.8M was accumulated in reserves during the audit period, which represent approximately 36% of the total SIP funded amount. For the period 10/1/2013 through 3/1/2015 the plan had an average of 661 enrollees. The average paid claim amount per enrollee was \$5,627 during that period.

**Table 3**  
**Summary of the SIP's Total Costs and Reserves / October 2013 – March 2015**

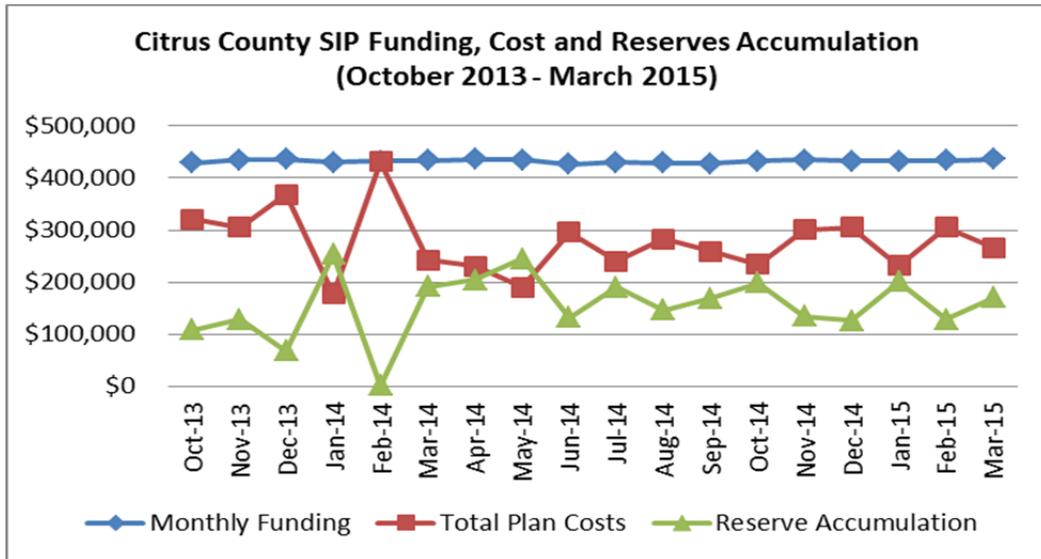
Month	Monthly Funding (*)	Total Paid Claims	BCBS ASO Payment	Stop Loss Premium	Total Plan Costs (**)	Reserve Accumulation	Accumulation as a Percent of Monthly Funding
Oct-13	\$429,374	\$251,620	\$35,273	\$33,818	\$320,711	\$108,663	25%
Nov-13	\$434,624	\$235,998	\$35,760	\$34,211	\$305,969	\$128,655	30%
Dec-13	\$436,264	\$298,029	\$35,814	\$34,361	\$368,204	\$68,060	16%
Jan-14	\$430,467	\$108,286	\$35,490	\$33,886	\$177,662	\$252,805	59%
Feb-14	\$432,217	\$361,377	\$35,652	\$34,017	\$431,046	\$1,171	0%
Mar-14	\$433,749	\$172,210	\$35,868	\$34,139	\$242,217	\$191,532	44%
Apr-14	\$435,991	\$160,609	\$35,977	\$34,333	\$230,919	\$205,072	47%
May-14	\$434,897	\$119,551	\$35,868	\$34,245	\$189,664	\$245,233	56%
Jun-14	\$426,967	\$226,540	\$35,219	\$33,614	\$295,373	\$131,594	31%
Jul-14	\$429,702	\$170,261	\$35,490	\$33,833	\$239,584	\$190,118	44%
Aug-14	\$429,209	\$214,026	\$35,544	\$33,823	\$283,393	\$145,816	34%
Sep-14	\$428,116	\$189,546	\$35,444	\$33,716	\$258,706	\$169,410	40%
Oct-14	\$432,963	\$162,558	\$34,808	\$36,950	\$234,316	\$198,647	46%
Nov-14	\$435,171	\$228,369	\$34,965	\$37,152	\$300,486	\$134,685	31%
Dec-14	\$432,217	\$233,910	\$34,755	\$36,903	\$305,568	\$126,649	29%
Jan-15	\$433,038	\$159,765	\$34,913	\$36,984	\$231,662	\$201,376	47%
Feb-15	\$433,639	\$233,076	\$34,913	\$37,045	\$305,034	\$128,605	30%
Mar-15	\$435,718	\$193,459	\$35,228	\$37,207	\$265,894	\$169,824	39%
<b>Totals</b>	<b>\$7,784,323</b>	<b>\$3,719,190</b>	<b>\$636,981</b>	<b>\$630,237</b>	<b>\$4,986,408</b>	<b>\$2,797,915</b>	<b>36%</b>

(\*) The monthly funding is established and approved by the Board based on a combination of benefit amount budgeted per employee and premiums collected.

(\*\*) The CareHere costs are not part of the Total Plan Costs and the reserve calculation because the clinic is self-funded through the premiums the enrollees pay. The Gehring Group costs are not included either, because they are budgeted separately from the SIP.

The figure below represents the SIP's total funding, costs and reserves accumulation in graphic form.

**Figure 1**  
**Gehring Group's Representation of Outpatient Services Cost Savings**



**IV. INTERNAL CONTROL OVERVIEW AND ASSESSMENT**

Following is a description of Citrus County's compliance with control activities associated with the SIP, organized by control area.

- Control Area 1: The organization has policies and procedures in place regarding proper approvals, procedures to ensure that SIP fees and clinic costs are evaluated regularly, and that budget protocols are followed as prescribed by the County.**

To evaluate the adequacy of policies and procedures for the County's self-funded insurance program, CLA assessed cost reports and analysis provided by the Gehring Group, and internal documentation maintained by HR personnel. Expenditures were analyzed for consistency and proper authorization, traced back to appropriate contract language, and compared against County enrollment records. CLA reviewed data presented analytically and noted no variances that required further investigation.

Specifically, the following controls were assessed:

- a. The program's charges are reviewed and approved by proper chain of authority.**
- On a monthly basis, the HR Director reviews a *Claims Experience Report – BlueCross Blue Shield of Florida* provided by the Gehring Group that tracks budget variance, either positive or negative, and accounts for the addition or subtraction of reserves.
  - The HR Director approves payment of costs associated with the SIP, only after the *Claims Experience Report* is reviewed and deemed reasonable versus budgets and expectations. Any anomalies or unexpected variances are reviewed as well.
- b. The program's fees and costs are regularly evaluated, including both the County's insurance brokerage and third-party administration.**
- The Gehring Group benchmarks claims experience data against other SIP providers within the Gehring Group database, and submits the summary report to the HR Director for review. Reports are reviewed by the HR Director on a monthly basis.
- c. The program's membership is monitored on an ongoing basis.**
- HR associates review, on a monthly basis, the County employee/retiree enrollment information and trace the information to the cost reports to ensure proper calculation of fees, as both the third party administrator and the health clinic manager are paid on a per member per month (PMPM) basis. This data is tracked via an excel spreadsheet.
- d. Budget protocols are in place and monitored.**
- The HR Director reviews trend reports provided by the Gehring Group and uses the information in evaluating claims and establishing budgets.
  - HR staff track the County's SIP reserves and submit a monthly summary report to the HR Director. In turn, the HR Director works with the Office of Management and Budget to review activity and report on budget variances. This activity guarantees the provision of the self-insurance programs and services.
  - The HR Director tracks budgets on a monthly basis via a spreadsheet maintained by HR staff.

### **Observation 1**

The County's SIP has experienced an increase in the plan's reserves due to a "better-than-anticipated" claims experience. The County should take this result into consideration when analyzing both their needs for reinsurance for the plan, as well as future budgeting each fiscal year.

### **Management Response**

While we have had a "better-than-expected" claims experience, it is important to build the reserves to a level that covers run out (claims that come in if the plan is not continued) and when that "bad year" comes. When beginning the budgeting process, we look at medical and pharmaceutical trends, claims experience, reserve balances, premiums collected and the actuarial study. We also look at alternative networks, plan designs, and tier design annually. It is our goal to establish the reserves to a level which we believe achieves our ability to effectively maintain the plans health. Reserves should be approximately 50% of anticipated claims to cover run out and a bad year. Once we reach that level we can calculate premiums based on expected annual claims.

## **2. Control Area 2: Compliance with established regulations.**

For the assessment of adherence with compliance regulations and proper governance, CLA validated that required actuarial studies were completed, and noted that the results of these studies continue to support the reasoning behind maintaining self-insured status versus a traditional premium-paying service. CLA also evaluated whether appropriate budget protocols are followed, and noted the BOCC's involvement and approving role.

### **a. The County adheres to compliance regulation.**

- Actuarial studies are completed as mandated by state law, specifically Florida Statute 112.08, *Group insurance for public officers, employees, and certain volunteers; physical examinations*. CLA reviewed the actuarial report that was completed during the scope period. The March 4, 2015 report provided by Wakely Consulting Group adequately addresses the required regulations.

### **b. Proper governance by the BOCC is in place.**

- The HR Director works in tandem with the Management and Budget Director to prepare the budget for the program each fiscal year. The budgets are reviewed by the Management and

Budget Director's staff for reasonableness, and are rolled up into final budgets for approval by the BOCC each fiscal year.

**3. Control Area 3: Controls and evaluation of the County's on-site health clinic.**

To evaluate this control area, CLA analyzed the contract with the third-party management company, CareHere, evaluated expense records related to costs and reimbursements, and analyzed reports provided by the Gehring Group that benchmark the health clinic's cost and utilization against other Florida clients within the Gehring Group database. CLA reviewed data presented analytically and noted no variances that required further investigation.

The following controls were assessed:

**a. Contracts are properly authorized and reviewed on a regular basis.**

- The County has a written contract with CareHere to manage the clinic's operations. The costs of running the clinic, utilization analysis, and other analytical metrics are provided by the Gehring Group to the HR Director for review on a regular basis.

**b. Payments for reimbursements of clinic expenses are properly authorized and documented.**

- Similar to the arrangement with the TPA, the health clinic is reimbursed on a PMPM charge basis. HR staff track the monthly enrollment data and compare this to the charges for the clinic to ensure proper billing. These reports are reviewed by the HR Director before being approved for payment. Supplies and materials used by the clinic are tracked in detail, and billing for reimbursement is submitted. The HR Director reviews this bill and HR staff track the typical billing/usage each month to ensure reasonableness before approving for payment.

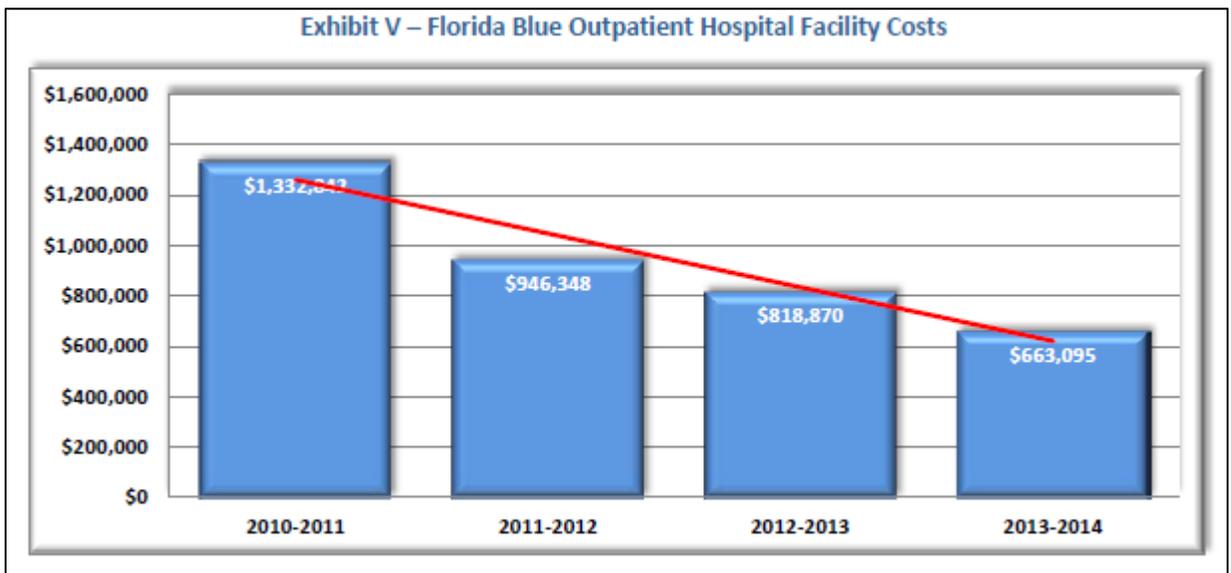
**c. Regular evaluation of the clinic's utilization and cost effectiveness is in place and reported to appropriate management and governance officials.**

- The BOCC approves all budget expenses for the County on an annual basis, including costs for the clinic and SIP. The Gehring Group provides cost data which the HR Director uses to evaluate the clinic's costs. CareHere provides monthly utilization reports that the HR Director reviews to ascertain the extent to which County employees use the clinic's services.

In November 2014, the Gehring Group issued a report titled *Citrus County Employee Health Clinic Review* (the Gehring Group report), which included an in-depth analyses of the clinic’s performance versus expected costs. The Gehring Group report concluded that:

- Prescription drug costs were 24% lower than expected due to the clinic’s use of generic drug substitutions whenever possible.
- The cost of outpatient services decreased by 50% since the clinic was opened, which represents approximately \$1,500,000 in savings. Gehring calculated these savings by comparing the outpatient services before the clinic was opened (\$1,332,842) to the costs post-opening, represented in Figure 2 below, which was extracted from the Gehring Group report.

**Figure 2**  
**Gehring Group’s Representation of Outpatient Services Cost Savings**



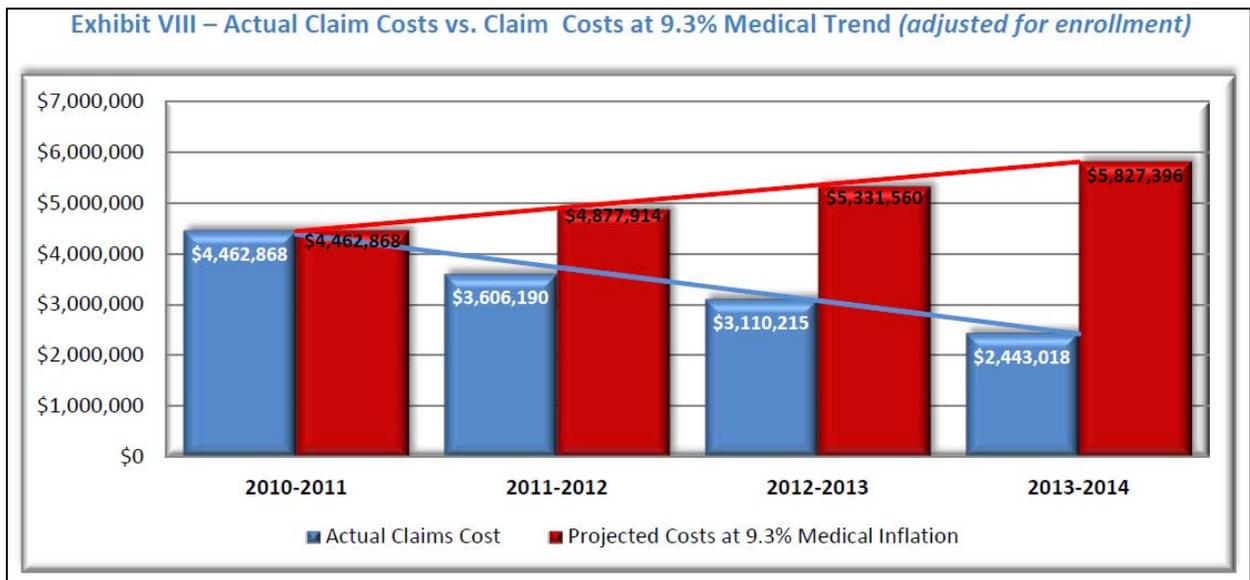
Source: The Gehring Group, *Citrus County Employee Health Clinic Review*, November 2014.

- Over that same period, the County achieved total savings from a claims-paid perspective of \$3,400,000.

The Gehring Group report also analyzed the overall effect of the clinic on the health plan by looking at the cost of the claims per year and measuring the savings the County had realized by implementing an onsite clinic. To project the cost of the insurance program had the County not implemented the onsite clinic, the Gehring Group used a *Kaiser Family Foundation* factor that establishes that the cost of medical claims in the state of Florida has experienced an increase of 9.3% from 1980 to present.

By applying this factor and starting with a 2010-2011 baseline claim cost of \$4,462,868, the Gehring Group concluded that the County’s costs would have been about \$1,400,000 higher three years later without the clinic. By comparing the projected cost to the actual 2013-2014 claims cost, Gehring Group calculated a savings of approximately \$3,400,000, as shown in Figure 3 below. During this four-year period analyzed, the clinic expenditures were approximately \$1,500,000.

**Figure 3**  
**Gehring Group’s Representation of Health Clinic Cost Savings**



Source: The Gehring Group, *Citrus County Employee Health Clinic Review*, November 2014.

Acknowledging that the method of analyzing return on investment described above calculates the savings achieved by keeping the County’s costs constant, the Gehring Group also analyzed the return on investment using a more detailed cost avoidance approach that solely considers items that can be shifted from the medical plan to the clinic--most importantly, office visits

(including labs and ancillary services) and prescription medications. As shown in Figure 4 below, the return on investment utilizing a cost avoidance approach illustrates a savings of \$1.92 for every \$1 spent. When considering the cost savings to employees, the return on investment increases to \$2.29 for every \$1 spent.

**Figure 4  
Gehring Group’s Representation of the Health Clinic’s Return on Investment (\*)**

Exhibit IX – Return on Investment					
Medical Services or Item	Health Center Utilization	Average Florida Blue Cost	Claims Avoidance	Health Center Cost	Return on Investment
Office Visits	12,666	\$188.14	\$2,382,981	\$1,437,044	\$1.66 : \$1
Pharmacy	8,113	\$68.53	\$555,984	\$90,720	\$6.13 : \$1
<b>Subtotal</b>			<b>\$2,938,965</b>	<b>\$1,527,764</b>	<b>\$1.92 : \$1</b>
Employee Savings	12,666 @ \$35 /		\$443,310		
Office/Rx	8,113 @ \$15		\$121,695		
<b>Total Savings</b>			<b>\$3,503,970</b>	<b>\$1,527,764</b>	<b>\$2.29 : \$1</b>

Source: The Gehring Group, *Citrus County Employee Health Clinic Review*, November 2014.

(\*) The data represents the clinic costs and savings from its inception in November 2011 through the end of fiscal year 2014.

Based on information provided by the Gehring Group, CLA broke down the “Health Clinic Cost” shown in Figure 4 above with the purpose of illustrating the savings realized by fiscal year (from the clinic’s inception in November 2011 through the end of fiscal year 2014.) Table 4 shows the annual savings.

**Table 4  
Clinic Costs, Claims Avoidance and County Savings by Fiscal Year**

	FY 2012 (*)	FY 2013 (**)	FY 2014 (**)	Totals
Clinic Total Costs	\$ 452,417	\$ 543,483	\$ 531,864	\$1,527,764
Claims Avoidance	\$1,143,450	\$1,188,764	\$1,171,756	\$3,503,970
County Savings	\$ 691,033	\$ 645,281	\$ 639,892	\$1,976,206

Source: The Gehring Group.

(\*) Short year for clinic operations, clinic opened in November, 2011.

(\*\*) These items adjust for timing as payments are made one month in arrears.

- Per the Gehring report, there was a total of 12,666 health clinic visits recorded during the period. According to management, this number represents actual patient visits, not appointments made. A CLA analysis of the CareHere July 2014 through June 2015 report showed that the clinic averaged approximately 114 unique visitors per month.

Due to privacy laws and the independent nature of the clinic's operations, the county is not permitted to track the number of people that are enrolled in the plan but do not use the clinic.

Management noted that County departments with mandatory physicals require that employees use the clinic for that purpose. This gives employees an opportunity to become familiar with the clinic and its staff, with the potential benefit of increasing clinic utilization and further reducing benefit cost. Management has also noted that they continue to encourage employees to use the clinic through wellness programs and other educational and training campaigns, all with the purpose of achieving higher clinic utilization rates.

We recommend that, going forward, management implements a mechanism to track the physicals completed at the clinic with the purpose of calculating the County's savings from this effort.

### **Observation 2**

The Gehring Group report indicated that cost savings are achievable through clinic utilization. The County should continue its efforts to encourage plan members to utilize the health clinic over another network provider, and thus contribute to additional County cost savings. Further, management should continue to monitor cost savings on a regular basis and communicate results to plan members.

### **Management Response:**

Management concurs with this finding. Management regularly discusses the high level of service, affordable cost to patients and the fact that clinic utilization lowers our overall insurance costs. The Human Resources Director will provide each Constitutional Officer a

monthly report which demonstrates the saving through utilization of the clinic and participation by their office.

New employees of the Board and Property Appraiser receive a pre-employment physical at the clinic so they gain exposure to the clinic at that time. This increases clinic participation. Current employees generally have an established relationship with a medical service provider. Consequently they tend to be less likely to change providers.

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