

# Hillsborough Transit Authority (HART)

Audit Committee Meeting  
April 17, 2017

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,  
an SEC-registered investment advisor. | ©2017 CliftonLarsonAllen LLP



# CLA Engagement Team – Assurance Services

- **Overall Engagement Responsibility**
  - Andrew Laflin, Principal
  
- **Financial Statement Audit and Single Audit Team**
  - Sue Pagan, Engagement Director
  - Kim Poblete, Senior
  - Breezy Paulus, Associate
  
- **IT Audit Team**
  - Jim Barton, Manager
  
- **NTD AUP Team**
  - Monica Sanchez, Engagement Director



# CLA Engagement Team – Consulting Services

- **Overall Engagement Responsibility**
  - Andrew Laflin, Principal
  
- **Risk Management Assessment Team**
  - Monica Sanchez, Engagement Director
  - Roxana Acosta, Engagement Director
  - Stephen Smith, Associate
  
- **HR & Benefits Assessment Team**
  - Kim Orsolits, HR Business Consultant
  
- **Health Plan Assessment Team**
  - Jim Kreiser – Principal, Business Risk Services
  - Joel Eshleman, Engagement Director
  - Amanda Kemp, Engagement Director
  - Cheryl Hetland, Director, Pharmacy Services
  - Rick Hamilton, Principal, Pharmacy Services
  - Rachel Pugliano, Director, RHIT



# Audit and Attestation Services Performed

## Financial Statements

- Financial statement audit for the year ended September 30, 2016, in accordance with *Government Audit Standards*
- Limited procedures applied to RSI (MD&A)

## Federal Compliance

- Federal Single Audit in accordance with the Uniform Guidance

## State Compliance

- State Single Audit in accordance with *Section 215.97, Florida Statutes* and *Chapter 10.550, Rules of the Auditor General*
- Examination of compliance with investment provisions in accordance with requirements of *Section 218.415, Florida Statutes*



# Reports to be Delivered

- 1 • Independent Auditors' Report
- 2 • Report on Internal Control Over Financial Reporting and On Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Yellow Book Report)
- 3 • Independent Auditors' Report on Compliance For Each Major Federal Program and State Project and on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.550, Rules of the Auditor General (Single Audit Report)
- 4 • Management Letter as required by Chapter 10.550 Rules by Auditor General
- 5 • General Communication to Governance
- 6 • Independent Accountants' Report (Examination)



# Results of Procedures

## Independent Auditors' Report

- Unmodified Opinion

## Independent Auditors' Report on Internal Control (*GAS - Yellow Book*)

- No Material Weaknesses

## Single Audit Report, Federal Programs (Uniform Guidance) and State Projects (S.215.97 F.S.)

- Unmodified Opinion on Compliance
- No Material Weaknesses reported; One Significant Deficiency / Other Matter reported
- No Questioned Costs
- One major federal program tested; two major state projects tested
- No Prior Year Findings

## Management Letter (*Florida Auditor General*)

- Two recommendations to improve financial management

## Independent Accountants' Report (*Examination – Investment Compliance*)

- Unmodified attestation opinion on investment compliance



# Audit Procedures Performed-Highlights

- Internal control & Compliance Testing

Single audit compliance & IC over compliance testing

Evaluation of key internal controls over cash & investments, inventories, revenues & receipts, payroll, A/P disbursements, capital assets, self insured claims, financial closing & reporting process

- EOC (Element of Unpredictability) Procedures & IT Security Services

Unpredictability: P-Card Testing & Supplemental Deductions

P-Card: No unauthorized purchases noted

Supplemental Deductions: Selected employees received the amount of coverage they elected

IT Controls – Additional Services

In-progress: Follow-up on prior years' recommendations (5 different reports)

# Communications to Governance

- No difficulties encountered in dealing with management; no disagreements with management
- Uncorrected misstatement –
  - Recognize developer contributions upon receipt rather than when proceeds are spent for receipts with a purpose restriction. Passed adjustment to restate beginning net position is \$177,299.
- Status of prior year findings
  - 2015-001 – Pay Rate Modifications - **Cleared**





# Current Year Single Audit Finding

- 2016-001 – Contractor Certified Payrolls
  - Relates to CFDA No. 20.500 and CFDA No. 20.507
  - Need to properly educate program managers on Davis Bacon requirements, namely retaining certified payrolls from prime contractor and subcontractor
  - Independently verify that all necessarily documentation has been retained



# Current Year Management Recommendations

- 2016-002 – Cash Account Reconciliations
  - All cash accounts, including imprest accounts, should be reconciled on a periodic basis, at least annually
- 2016-003 – Timing of Grant Reimbursement Requests
  - Grant-related reimbursement requests should occur on a more frequent basis in order to avoid future potential cash flow shortages



# New Current and Upcoming Accounting Standards

- GASBS No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*
  - Effective for fiscal years beginning after June 15, 2017
  - Early adopted by HART
  - OPEB liability = \$1,017,804 (807 actives; 6 retirees participating)
- GASBS No. 72 – *Fair Value Measurement and Application*
  - Implementation effective in FY '16 but had no impact on the Authority



# Financial Statement Analysis: Assets

Asset Account	2016	2015	2014	2013
Cash and Cash Equivalents	\$10,562,998	\$16,475,962	\$21,156,606	\$22,689,574
Parts & Supplies Inventory	\$1,503,769	\$1,513,189	\$1,471,429	\$1,401,416
Capital Assets, Net	\$124,066,314	\$123,485,181	\$123,264,994	\$123,973,178
Capital Asset Additions	\$12,233,660	\$12,046,766	\$9,882,366	\$31,906,668



# Financial Statement Analysis: Liabilities

Liability Account	2016	2015	2014	2013
Accounts Payable & Accrued Expenses	\$4,589,195	\$4,251,085	\$4,508,597	\$7,501,360
Self Insurance & Loss Contingencies	\$9,092,058	\$7,991,529	\$7,693,334	\$5,752,000
Total OPEB Liability	\$1,017,804	\$0	\$0	\$0
Net Pension Liability	\$35,147,147	\$23,122,094	\$15,640,974	\$0



# Financial Statement Analysis: Revenues

Revenue Account	2016	2015	2014	2013
Passenger Fares	\$15,155,608	\$16,593,816	\$16,420,800	\$15,536,071
Ad Valorem Taxes	\$34,869,378	\$32,398,546	\$30,171,450	\$26,466,343
Operating Grant Revenue	\$16,002,545	\$16,404,005	\$18,078,029	\$17,573,928
Capital Grant Revenue	\$11,941,558	\$13,519,284	\$9,397,220	\$36,291,164



# Financial Statement Analysis: Expenses

Expense Account	2016	2015	2014	2013
Personnel Costs	\$52,766,731	\$48,731,424	\$44,101,606	\$41,650,103
Other Operating Expenses	\$23,246,864	\$23,294,497	\$23,452,627	\$23,222,608
Depreciation Expense	\$11,652,527	\$11,671,433	\$10,578,252	\$11,635,161



# Financial Statement Analysis: Net Position

Net Position Account	2016	2015	2014	2013
Unrestricted Net Position	\$(14,589,739)	(\$5,632,905)	(\$1,304,949)	\$24,894,805







# Risk Management Assessment

Scope of Services and Findings &  
Recommendations

# Risk Management Assessment

- SCOPE
  - Conduct an assessment of the risk management process
    - ◇ Evaluate key functions for processing claims data in workers' comp (WC), general liability (GL), and subrogation areas
    - ◇ Identify internal controls in each area and assess the strength of each control
    - ◇ Test a sample of 35 GL claims and 25 WC claims
  - Conduct an assessment of the work performed by Manager of Risk
  - Issue reporting deliverables
    - ◇ Executive summary (narrative), flowcharts, internal control matrix



# Risk Management Recommendations

- Policies and Procedures
  - Develop a procedure for submitting information to the TPA necessary to process WC claims involving subrogation recovery costs
  - Develop policies surrounding processing of FMLA cases
  - Develop a policy to write off subrogation claim balances
- Review and Approval Controls
  - Ensure checklist is properly completed as part of review process
  - Consider implementation of electronic workflow process



# Risk Management Recommendations

- Use of Technology
  - Claims management software solution is utilized, but claims data within the application was not current
  - Take steps to transition to a paperless environment
- Management Reports
  - Devise a suite of key metrics to evaluate and report on fluctuations and trends relating to claim activity
- Performance and Workload Standards
  - Establish time standards and other performance metrics for accomplishing key case administration milestones



# Risk Management Recommendations

- Cost Savings Opportunities
  - Take measures to ensure that all employees released to work with restrictions are offered placement in light duty program
  - Provide WC attorney with sufficient documentation up front as needed to properly evaluate claims subject to litigation
  - Perform benchmarking analysis on hourly rate currently in effect to calculate cost of labor for vehicle repair of billable claims; ensure parts obtained from HART inventory are charged to billable claim at actual market price





# HR & Benefits Assessment

Scope of Services and Findings &  
Recommendations

# HR/Benefits Assessment

- SCOPE
  - Review HR functions at HART to ensure they are operating as intended, ensure compliance w/applicable laws & regulations, evaluate whether adequate controls are in place to mitigate risks within the process
    - ◇ Culture, management practices, HR policies & procedures, recordkeeping & personnel files, employee performance & management, hiring policies and practices, termination policies & practices, compensation practices, benefits processes and administration

# HR/Benefits Recommendations

- **Management Practices:** Develop programs and practices to improve reputation of HR within the agency and focus on timely services to employees
  - Create HR Advisory Committee
  - Conduct regular meetings with entire HR team; incorporate job shadowing and cross training
  - Set up HR email inbox
  - Evaluate technology needs





# HR/Benefits Recommendations

- **Recordkeeping:** Develop security procedures for employee files; ensure employee files are properly maintained and I-9s are compliant with Federal law
  - Employees outside of HR had access to employee file room
  - Reviewed random sample of 10 employee files: files were housed in different locations and systems including paper files, electronic files in multiple systems (NEO gov, HR database, Great Plains, Payscale, & Harmony); in some instances info within paper file did not match electronic files



# HR/Benefits Recommendations

- **Benefits:** Implement required benefits compliance practices
  - Maintain documentation relating to HART's Section 125 Plan in place
  - Provide initial COBRA notifications to employees
  - Adhere to fiduciary responsibilities for the Section 457 Plan





# Health Plan Assessment

Scope of Services and Findings &  
Recommendations

# Health Plan Assessment

- SCOPE
  - Analysis of Plan Administration
    - ◇ Review nature and extent of interaction between HART and its benefits administrator (CIGNA)
  - Analysis of Individual Claims
    - ◇ Use data analytics to identify potential anomalies or unusual trends within claim data provided (1/1/14 – 12/31/15)
    - ◇ Randomly select 225 medical claims and 225 pharmacy claims and test for following attributes: eligibility, compliance with plan design features, and proper coding
  - Reporting
    - ◇ Results of assessment (narrative), charts/graphs, IC matrix



# Health Plan Recommendations

- **Employee Eligibility Tracking**

- Maintain a formal documented master list of new hires terminations and status changes for employees to ensure all additions removals and changes are captured accurately & completely within management portal
- As a potentially significant cost savings measure, consider terminating coverage immediately upon cessation of employment
- Perform regular review and reconciliation of CIGNA's monthly eligibility reports to ensure accuracy and completeness for all employees, spouses, & dependents
- Reconcile paid claims to eligible employees



# Health Plan Recommendations

- **Monitoring Processes**

- Formally track performance guarantees related to pharmacy benefits within ASO agreement with CIGNA
- Obtain and review SOC1/SOC2 reports from CIGNA and assess implementation of Complimentary User Entity Controls (CUECs) and assess potential vulnerabilities within CIGNA's internal control structure
- Track and perform trending of participant health information to available discounts/programs to determine participation levels and whether prevention oriented health services discounts are being utilized



# Results of PBM Claims Testing - Recommendations

- Perform annual market check of current PBM administrator to determine if pricing and rebate guarantees are being met
- Perform rebate audit
- Inquire with CIGNA on establishment of clinical & financial management programs for high cost drugs
- Ensure that members are utilizing formulary medications
- Discourage members from utilizing generic push program
- Educate employees on cost savings associated with mail order utilization
- Collaborate with CIGNA on increasing generic utilization at mail order



# Results of Medical Claims Testing

	2014		2015	
	Claims	% of Total	Claims	% of Total
<b>Sample Size</b>				
	110	0.29%	115	0.27%
<b>Financial Management</b>	1	0.003%	3	0.007%
Excluded percentage miscalculated	0	0%	2	1.7%
Supply and Drug charges not paid	1	0.9%	0	0%
Paid on Denied Inpatient Day	0	0%	1	0.87%

**RECOMMENDATION:** Consider different plan designs and pricing models, such as reference-based pricing.







## Conclusion

**We appreciate everyone's cooperation throughout the audit and consulting engagements.**

**Andrew Laflin, CPA**

**Principal**

**andrew.laflin@CLAconnect.com**

**813-384-2711**

**CLAconnect.com**