

**BOARD OF COUNTY COMMISSIONERS
RISK MANAGEMENT OFFICE
OPERATIONS AUDIT, FOLLOW-UP 1
March 23, 2005**

HERNANDO COUNTY CLERK OF CIRCUIT COURT
Audit Services Department
MEMORANDUM

TO: George Zoettlein, Office of Management and Budget Director
Flo Boles, Risk Manager

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: March 23, 2005

SUBJECT: Risk Management Office Operations Audit, Follow-Up 1

The Audit Services Department's Audit Projects Schedule included a follow-up review of the Risk Management Division's Operations Audit issued June 28, 2001. The audit focused on the general insurance processing function.

Although ASD exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

The purpose of the audit report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

A copy of the report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235 or just stop by my office in room 201.

ATTACHMENT

copy: CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

BOARD OF COUNTY COMMISSION:

Commissioner Christopher “Chris” Kingsley

Commissioner Hannah “Nancy” M. Robinson

Commissioner Diane Rowden

Commissioner Robert C. Schenck

Commissioner Jeff Stabins

Gary Adams, County Administrator

Kurt Hitzemann, Senior Assistant County Attorney

OTHER:

Chip Jones, Partner, KPMG

Hernando Today

St. Petersburg Times - Hernando Edition

WWJB Radio Station

Hernando County Public Library

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ACKNOWLEDGMENT

Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process. We thank the management and staff for their cooperation throughout the audit.

Fieldwork was performed by:

Peggy Prentice, CIA, CISA, Audit Services Director

Fieldwork assistance was provided by:

Barbara Fichter, Internal Auditor

Management's June 2001 response was provided and authorized by:

George Zoettlein, OMB Director

Richard "Dick" Radacky, County Administrator

Management's August 2004 response was provided and authorized by:

George Zoettlein, OMB Director

Gary Adams, County Administrator

This audit report was reviewed and authorized by Karen Nicolai, CPA, Clerk of the Circuit Court, on March 23, 2005.

OBJECTIVE & SCOPE

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OBJECTIVE

The objective of this audit is to address management's corrective action in response to audit recommendations reported in the Risk Management Division (Office) Operations Audit, issued June 28, 2001.

SCOPE

During this project, the Audit Services Department (ASD) provided management with independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The scope of work included a request for and a review of management's response to the audit recommendations. The ASD addressed whether management implemented corrective actions which effectively addressed the original findings and recommendations. The ASD addressed the Risk Management Office's (RMO's) corrective actions, and determined if these actions, implemented partially or fully, were implemented timely as stated in management's response. The corrective actions, or lack of the same, were evaluated under current conditions (October 1, 2003, through February 4, 2005). A determination was made as to what, if any, corrective action is still needed to alleviate any concerns.

The ASD performed the following:

- Evaluated the adequacy of operational policies and procedures and cross training by interviewing key personnel and reviewing the RMO's written operational policies and procedures.
- Appraised internal controls over the general insurance carrier selection process by interviewing key personnel and reviewing selection process records.
- Evaluated the system for insuring assets by interviewing key personnel, flowcharting the system of insuring acquired assets, reviewing financial records, and testing asset insurance coverages.
- Evaluated the system for insuring the County against potential liability by interviewing key personnel, flowcharting the system of insuring against liabilities, reviewing financial records, and reviewing the RMO's records and reports.
- Appraised claims processing, authorities, and history of expenditure records and controls by reviewing and testing the RMO's claim files and reports, Accident/Incident reports, and financial records.
- Provided management with system/processing recommendations for enhancing the RMO's operational and internal controls, efficiency, and effectiveness, as applicable.

BACKGROUND

BACKGROUND

Hernando County's legislative body consists of a five-member Board of County Commissioners (BCC), all of whom are individually elected. Spring Hill Fire and Rescue District (SHF&RD) is a dependent district under the BCC. Additionally, there are five Constitutional County Officers who are individually elected: Clerk of Circuit Court (CCC), Property Appraiser, Sheriff, Supervisor of Elections and Tax Collector. Each Officer is responsible for a different specifically designated governmental function.

The BCC's RMO fulfills the role of safeguarding the assets and liabilities of Hernando County. In carrying out these responsibilities, the RMO performs planning, organizing, supervising and controlling methods to reduce exposure to loss for the County's Constitutional Officers, Health Department, and Hernando Beach Volunteer Fire District, as well as the BCC. The SHF&RD does not utilize these RMO services.

The RMO employs one full-time Risk Manager and one full-time Risk Management Technician. The OMB Director supervises the RMO.

The RMO: oversees "Third Party Agency" services for insurance coverage; procures insurance; monitors said companies for effective handling of the County's exposures; defines policies and procedures for claims handling; administers claims processing; negotiates settlements and development of recommendations for settlements; provides oversight of safety and insurance programs; and monitors current and forecasts future insurance needs.

To minimize the County's potential for loss due to incidents in which County property is damaged or the County may be liable to third parties, the RMO performs loss control. The loss control process includes the identification of a situation that could potentially result in financial loss for the County. Per the Risk Manager, to either eliminate or minimize the identified risks, these concerns are discussed with the appropriate level of management and with the Safety Counsel. In addition, the RMO procures the County's insurance and protects the County's interests by encouraging insurance language in agreements with third parties.

Per the Risk Manager, the Safety Counsel is made up of representatives from user departments and is overseen by the RMO. The Safety Counsel's objective is to identify trends and make recommendations to prevent or minimize safety risks. If a potential safety weakness is identified, the Safety Counsel strives to establish training workshops.

In addition to the above methods of loss control, the RMO procures the County's insurance policies to protect the loss of County property and to protect against general liability. To ensure adequate

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insurance coverage, with the assistance of an insurance broker, insurance companies and policies are selected. To determine the insured value, the RMO uses either the purchase price or current value of the asset, as appropriate. To ensure that buildings and contents are adequately insured, the services of an insurance appraiser may be employed.

The County's insured asset inventory is continuously changing due to the acquisition, transfer or surplus of assets (property and equipment). The process denotes that when user departments change their inventory, they are to notify the appropriate BCC and CCC departments (i.e., Purchasing and Contracts, RMO, and Finance). If an asset is acquired or transferred, the appropriate departments are notified via an I-1 or a Sheriff's Asset Inventory form. Notification of an asset placed in surplus is provided on an I-2 or a Sheriff's Asset Inventory form. When the RMO is notified that an asset has been acquired, transferred, or has been designated as surplus, the information is entered into the RMO's insured asset database. Insurance policy coverage is then modified, as appropriate.

Several times each year, the RMO sends user departments a list of their insured assets. User departments are asked to compare their records to the insured asset list and to report any discrepancies. If the RMO is notified of discrepancies, corrective action is taken by updating the database and insurance coverage, as appropriate. Each user department is responsible for ensuring that their assets are adequately insured.

As of January 1, 2005, the RMO insured approximately 6,500 items with property coverage totaling approximately \$130.5 million. The types of assets insured include private passenger and emergency vehicles, light trucks, electronic data processing equipment, heavy equipment, mobile property, buildings and their contents, and communication towers. In addition to the insurance of property and equipment, the RMO insures the County against loss due to general liability in the form of a \$2 million (per occurrence) insurance policy.

Generally, when an incident occurs in which the County has or may experience loss, the RMO is notified by user departments via an Accident/Incident Report form. These forms are to be prepared on the day of the accident/incident and submitted to the RMO within two business days.

Once the Accident/Incident Report is received in the RMO, a determination is made as to whether or not a claim should be filed. If it is determined that the loss is less than the deductible or that the claim should not be filed (not an insured claim), the report and any supporting documentation are kept in either an "Unfiled" or "Potential" claims folder. Reports for incidents that merit a claim are submitted to the appropriate insurance carrier or are handled by the RMO and a file is created and maintained. The Risk Manager monitors the insurance company's effective handling of the County's exposure in the processing of the claim through completion.

**DISCUSSION POINTS,
RECOMMENDATIONS &
MANAGEMENT'S RESPONSES**

OPERATIONAL POLICIES AND PROCEDURES AND CROSS TRAINING

Discussion Point, June 2001: The RMO has limited and inadequate written instructions and operational policies and procedures. The existing instructions and policies and procedures provide, at best, fragmented guidance in performing a few departmental functions.

There are individuals (BCC employees and external sources) who have segmented knowledge of some RMO operational procedures. No one individual is fully cross trained to perform a single function. The ASD found cross training to be inadequate.

Recommendation, June 2001: To encompass good internal controls, the RMO should draft and implement an operational policies and procedures manual. Adequate, complete and well-written policies encourage timely and complete records and aid in strengthening internal controls.

Consideration should also be given to cross training OMB staff in the daily operations of the RMO. The OMB is housed in the same location as the RMO and both are under the supervision of the same director. Cross training aids in the segregation of incompatible duties and in balancing work loads during high volume periods.

Cross training and well written operational policies and procedures minimize interrupted operations in the event of employee turnover or absence.

Management Response, June 2001: As time permits, the Risk Management & Safety Coordinator (the Risk Manager) will begin to compile operational policies and procedures to be drafted into a Standard Operating Procedures Manual for the department. She will begin with the most critical functions and continue until all areas of the operation are complete. In regards to the recommendation of cross training, it will be incumbent upon OMB, once the budget cycle is complete sometime after the start of the fiscal year, to have members of its staff cross trained on the critical areas of the RMO operations. Target Date: June 2002

Management Response, August 2004: The RMO has compiled a manual of its operational policies and procedures of the basic job functions performed in the office. This manual has been a work in progress with completion in the 2003/2004 fiscal year. A copy of this manual has been distributed to the Director of the OMB, to the OMB Supervisor, to the Risk Manager, to the Risk Management Technician and to the Audit Services Department.

The OMB Supervisor has cross trained on the Risk Manger's position. Also, the Risk Management Technician is training on many of these duties as well.

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All techniques used in the RMO are documented in the Risk Management Procedure Manual. This manual will be updated when changes are made or added to any function of the Risk Management Office. The Risk Manager consistently keeps the OMB Director and Supervisor up-to-date of any crucial issues.

Discussion Point, February 2005:

SOP Manual - The RMO has created an SOP manual which is evolving. It appears that this manual was written at an intermediate level for a reader that has basic knowledge of or some experience in risk management operations. This manual is well written, easy to understand, and addresses key processes and procedures. The RMO anticipates expanding or updating this manual as time allows and as processes are implemented or changed. No material differences were identified when comparing the SOPs to actual practices.

Cross Training - Based upon interviews and observations performed throughout fieldwork, it appears that the RMO has adequately cross trained its staff which could potentially minimize the interruption of operations in the event of employee turnover or absence.

INSURANCE CARRIER SELECTION PROCESS

Discussion Point, June 2001: The internal controls over the general insurance carrier selection process are not adequate. There is a lack of segregation of duties in the negotiation, selection, annual appraisal and approval process. The OMB Director indicated that, due to restructuring in the past two years, the RMO is now under the supervision of the OMB which should limit these concerns.

Recommendation, June 2001: Consideration should be given to documenting, in writing, the justification for choosing one insurance carrier over another during the selection and negotiation process. This document should then be approved by the OMB Director and/or the insurance committee.

Management Response, June 2001: Because the Risk Management & Safety Coordinator (the Risk Manager) is the most knowledgeable in this area, she will continue to handle this process. In the past, she verbally received approval for her selection from both the Budget Officer and the Insurance Committee. In the future, the justification and approvals will be in written form and kept on file. Target Date: June 2002

Management Response, August 2004: Going out for bid for insurance carrier/coverages is based on the current status of the insurance marketplace. Insurance coverage is not something that should be solicited every year because companies cannot and will not be comparable. Government entities are quite different than regular businesses. Hernando County's needs have grown as the County has grown. Due to staff limitations, Hernando County uses a broker to shop the market for the best coverages for the County. This will be done every two to three years depending on the marketplace. This 911 incident in our country has changed many facets of the insurance industry.

Insurance costs are reviewed, justified and approved by the OMB Director, the OMB Supervisor and the Risk Manager. Recommendation is then presented to the Insurance Committee for final approval.

Discussion Point, February 2005: The internal controls over the general insurance carrier selection process appear to be reasonable. There are adequate monitoring, segregation of incompatible duties, and oversight controls built into the process.

INSURANCE CARRIER PREMIUM PROCESS

Discussion Point, June 2001: The RMO charges user departments for their portion of insurance premiums. Generally, the County pays insurance premiums in installments. It appears from testing the procedure by which user departments are charged and installment payments are tracked, that this system is cumbersome and inefficient.

Recommendation, June 2001: In discussions with management, it was determined that, due to technological changes taking place at the present time, it would benefit the RMO to have a narrowly focused consultation on this function after the software and database changes are complete, possibly during the fall of 2001.

Management Response, June 2001: As previously discussed with the ASD, technology is changing rapidly; with that change comes the opportunity to develop a more efficient and accurate way of processing insurance carrier premiums and billing these premiums back to the proper departments. Beginning in September, the Risk Management & Safety Coordinator (the Risk Manager) plans to work closely with the ASD in using the new software and database changes to solve these problems. Target Date: June 2002

Management Response, August 2004: The Risk Manager worked closely with the ASD to implement a more efficient and accurate way of processing insurance premiums and billing them appropriately to the departments. The new system was implemented in 2002 but disregarded in 2003 as too cumbersome due to the jump in growth of all insurable items. The RMO uses a more user friendly software at this time.

Discussion Point, February 2005: No material concerns were identified with neither the insurance carrier premium billing process nor its internal control structure.

The RMO made automated insured asset tracking and insurance premium billing changes which enhanced efficiency. A database program (Microsoft Access) is used to track insured assets. This database appears to be working as desired. Management cited that the records maintained in Access are generally accurate and reliable. The ASD did not identify any material inaccuracy or incompleteness concerns during fieldwork. The Access records are used as a basis for calculating insurance carrier premium billings.

The RMO utilizes a spreadsheet program (Microsoft Excel) to calculate insurance carrier premium billings. These spreadsheets minimize human error by utilizing formulas and data links. No material concerns were identified neither with testing the user billing spreadsheets for mathematical accuracy nor tracing insurance premiums to invoices.

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The RMO (minimally) utilizes Lotus, a spreadsheet program, for some calculations related to insurance carrier premium billings. Management cited that they anticipate converting these spreadsheets to Excel as time allows. Due to the RMO's small staffing level, it appears that not enough time has passed for full conversion from Lotus to Excel.

The RMO utilizes segregation of duties, monitoring, and reconciliation controls to reasonably ensure that user billings are accurate and complete. Management cited that since the insurance carrier premium billing process and automated records have been enhanced, the RMO's labor hours and paperwork creation/distribution have been reduced making this process more efficient.

INSURING BUILDINGS (PROPERTY)

Discussion Point, June 2001: The RMO retained the services of an insurance appraiser to evaluate a few County owned buildings and their contents in 1994 and again this fiscal year. However, not all of the 1994 appraised values were used as a basis of insured value. The ASD did not find documentation explaining the discrepancies. The insured value of County owned buildings was increased in 1997 to allow for market fluctuations. Per the Risk Management & Safety Coordinator (the Risk Manager), the recent appraiser's report will be considered when determining the amount of coverage for these buildings.

Recommendation, June 2001: The County should continue to periodically evaluate County owned buildings and their contents for adequate insurance coverage. The buildings should be insured for their appraised value, including contents. If they are not insured for this amount, an explanation of why the insurance coverage differs from the appraisal should be placed in Risk Management's files.

Management Response, June 2001: In 1994 most of the property values of the County's buildings were charged in accordance with the new appraised value. Management decided not to increase the value of two or three buildings that were vacant or minimally used and verbal direction was given to the RMO in this respect. Management should have written explanations of its decision. Risk Management, in the future, will document all insured values that are reviewed and their recommendations. Target Date: June 2002.

Management Response, August 2004: The RMO in conjunction with its carrier periodically reviews all property values and adjusts them accordingly. Specific adjusters are retained to review several major properties owned by the County every year or every other year. The findings are recorded and discussed with the OMB Director and Supervisor. Adjustments are made according to the evaluations.

Discussion Point, February 2005: Per management, buildings and their contents are periodically evaluated to ensure that the insurance coverage is reasonable. The RMO works with the insurance carrier to periodically review all insured property values. Specific adjusters are retained to review several major County owned properties each year or two. The RMO anticipates having an appraiser value two to four large buildings in 2005 and also possibly adjusting the insured value of all other buildings, as appropriate. Per management, it has been a few years since the less valuable buildings have had their insurance coverage adjusted.

On average, the buildings reviewed by the ASD are insured 17% above their historical cost. All of the permanent buildings tested are insured. Since many of these buildings haven't been appraised in several years, the ASD does not provide an opinion as to whether the insured coverage is reasonable.

The ASD identified potential record keeping weaknesses in the RMO and the Finance Department records as follows:

- Test results indicate that when buildings are retired from service, this information is not effectively communicated to or processed by the RMO and/or Finance Department. This could cause the balance sheet to be overstated and the County may inadvertently insure assets that are no longer in service.
- Test results indicate that the full historical cost of a large building may not have been recorded appropriately in the financial records. However, since Finance is continuing to research this potential concern, this may or may not be an actual internal control weakness.
- Test results indicate that a “temporary” building was not insured. During fieldwork, the RMO performed research and determined that this building should be insured. The RMO contacted the user department and arrangements were made to provide insurance coverage as soon as feasibly possible. On March 17, 2005, management cited that this building has been insured.

In 2003, the County hired Maximus Asset Management Services to appraise the County’s buildings and contents. Maximus considered the County’s building additions and retirements in their appraisal. For insurance purposes, the County’s buildings were factored forward to reflect their current replacement cost. Maximus conducted an onsite physical inspection of all buildings with a replacement cost exceeding \$200,000. For all other buildings, Maximus relied on County provided information. Of the six (6) buildings which have a replacement cost exceeding \$200,000, three (3) of them have an insured value which is reasonably close to its appraised value. The RMO is in dispute with Maximus for the remaining three (3) appraisals. The OMB Director verbally approved insuring these buildings and contents for an amount that differs from the professional opinion. One of the disputed appraisals is for the Hernando County Jail, which will be reappraised later this fiscal year when the building addition is complete. Management indicated that at that time, the two other buildings will also be reappraised.

Recommendation, February 2005: To ensure that the appropriate level of management oversight and control are evident, consideration should be given to requiring the OMB Director to authorize in writing any insured amount that differs from the appraised value of the building.

TRACKING OF INSURED PROPERTY AND EQUIPMENT

Discussion Point, June 2001: The RMO is converting its insured asset database into Fixed Asset Software (FAS). The Finance Department uses the same software but a separate database to track County assets. Many of the department numbers in RMO's database are obsolete and some of the capital assets do not list their corresponding property numbers.

User departments prepare I-1, I-2, and Sheriff's Asset Inventory forms to record the addition, deletion or transfer of capital assets. The RMO's receipt of these forms triggers changes to the County's insurance coverage. Some of the forms reviewed were not submitted timely. The lead time from acquisition, deletion, or transfer to submission of the appropriate form to the RMO was between six weeks and eight months.

Occasionally, I-1, I-2, and Sheriff's Asset Inventory forms are received by the RMO without property numbers. Due to cited work load, research is not performed to obtain the missing numbers; therefore, these changes are made in the database without a property number. This procedure allows for the potential double entry of a capital asset in the database which could lead to the County unnecessarily expending twice the insurance costs for the asset. It also hinders quickly identifying specific items and reconciling assets to the balance sheet (i.e., reconciliation to Finance records) because other means of identifying the asset must be used (i.e., make, model or serial number or other description).

Currently, I-1 forms are completed by user departments and submitted to the Purchasing and Contracts Department. Purchasing and Contracts does not process these forms other than by disbursing them to the appropriate departments (i.e., Finance and/or the RMO).

Recommendation, June 2001: As a long-term solution to reduce key punching, reconciling databases to inventory/insurance, the RMO and Finance should work congruently toward a common goal such as sharing one database that allows each department to add fields specific to the users' needs (i.e., insured value, historical cost, depreciation).

In the short-term, consideration should be given to updating the RMO's database. Each capital asset should list a corresponding property number. Once updated, the RMO should not add, delete, or transfer capital assets in the database without a property number. In addition, the database's department numbers should be updated. This can be accomplished in batches by exporting from the database to an Excel spreadsheet and performing a "find and replace" procedure thereby replacing the obsolete department numbers with current numbers. The updated information can then be imported back into the database.

It appears that the Finance Department has a strong internal control structure for capturing capital assets and tracking the assets through their life cycles. Each month the Finance

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Department prepares an Excel spreadsheet to capture added, deleted, and transferred capital assets processed during the previous month. This spreadsheet is then uploaded into Finance's FAS database. The RMO and Finance use materially the same information. To reduce keypunching, consideration should be given to the RMO using this spreadsheet, with added user specific fields, to update its database as well. It is important to note that only the addition of capital equipment (capital assets other than land, buildings, and improvements) can be uploaded using this procedure.

To ensure that all assets that should be insured are identified, I-1, I-2 and Sheriff's Asset Inventory forms/sheets should be forwarded from user departments to the RMO timely. To reduce lead time, user departments should not submit I-1 forms to the Purchasing and Contracts Department for disbursement. Rather, they should complete the I-1 forms and disburse them directly to the appropriate departments (i.e., the RMO and/or Finance). I-2 (surplus) forms should continue to be forwarded to the Purchasing Department for processing. Sheriff's Asset Inventory forms should be disbursed as appropriate.

Management Response, June 2001: Risk Management is diligently working with the Finance Department to rectify the problems in connection with interfacing and using Finance's FAS database. Once this has been accomplished, Risk Management will be looking into implementing the "find and replace" procedure recommended by Audit Services. Risk Management will also be working on a procedure whereby it will receive information on insurable items from departments in a more timely manner. Target Date: June 2002

Management Response, August 2004: In 2003, the RMO has implemented the software system call ACCESS which can handle the large database of over 6,400 items, and this database is user friendly.

Discussion Point, February 2005: I-1 forms generally flow directly from user departments to either the RMO and/or Finance.

It appears that information sharing between the RMO and Finance is minimal and it may not be effective. There is no electronic sharing of data. Information is forwarded from the RMO to Finance via an Annual Insurance Billing List. Finance compares this list to its electronic (Pentamation) records. The RMO does not compare their records to Finance's record.

The RMO has reconciliation controls built into the insured property and equipment tracking procedure which reasonably ensures that when the RMO updates its electronic insured asset records, the electronic batch total agrees with the paper document batch total (I-1, I-2 and Sheriff's Asset Inventory forms). If the RMO were to strictly rely upon the receipt of these forms for complete record keeping, the RMO may not capture all addition, deletion, transfer and surplus changes. Finance has a reconciliation control for adding fixed assets whereby purchase orders and invoices are utilized as the

primary source documents to enter fixed assets into the financial record. Finance also reconciles the Pentamation record to the I-1 forms. Finance records any addition, deletion, surplus, or transfer changes onto a spreadsheet. This spreadsheet is reconciled to the general ledger.

The ASD tested the accuracy, completeness and timeliness of the RMO's processing of I-1 and I-2 forms. No material concerns were identified during testing.

The ASD traced a sample of capital assets from the Finance records to the RMO's records. The ASD looked for accuracy and consistency. No material concerns were identified during testing.

The ASD traced a sample of insured capital assets from the RMO records to the Finance records. The ASD looked for accuracy and consistency. Of the 25 assets tested:

- No material concerns were identified with 22 assets;
- One (1) asset was erroneously not assigned a capital asset number however, corrective action was taken during fieldwork;
- One (1) asset continued to be insured although the asset was retired. Based upon communications with the user department, the RMO was not notified of this retirement. Corrective action was taken during fieldwork; and
- One (1) asset's status could not be determined because the user department's research results were not obtained prior to the end of fieldwork, therefore, the ASD provides no opinion on this test item.

Recommendation, February 2005: Consideration should be given to directing Finance to forward a copy of their monthly addition, deletion, surplus, and transferred capital asset spreadsheet to the RMO as a reconciliation control between the two departments. Any discrepancies identified should be brought to Finance's attention. This will ensure that any changes identified by Finance or the RMO are effectively communicated.

It should be noted that for this information sharing to be effective, Finance's spreadsheet will need to list the property number, description, historical cost and user department for each asset.

It should also be noted that this procedure was performed a few years ago but it was discontinued due to employee turnover and not reestablished.

SURPLUS PROPERTY

Discussion Point, June 2001: During fieldwork, surplus property was stolen from the surplus compound located at the Airport Industrial Park. The Sheriff's report indicates that there was no forced entry into the compound and that the estimated value of the stolen property is \$8,000, making the offense grand theft. At the close of fieldwork, more than one month after the incident, the RMO had not yet received an Accident/Incident report.

The Purchasing and Contracts Department indicated that corrective action was taken to prevent future theft of surplus property by replacing the compound's entry gate locks with a combination lock and by limiting the number of individuals given the lock's combination.

After the above corrective action was taken, a second incident of theft occurred. Prior to the close of fieldwork, neither the RMO nor the ASD received either a Sheriff's report or an Accident/Incident report documenting the details of the second incident.

The RMO indicated that the County does not insure surplus property. The Purchasing and Contracts Department's "Surplus Property" policy number D160 does not provide guidance regarding insuring surplus items.

Finance Department records indicate that currently, there are approximately 400 surplus items with a combined historical cost of approximately \$2 million. Per the RMO, at least one piece of equipment located at the compound has a surplus value of up to \$100,000.

Recommendation, June 2001: The possibility of fire, flood, theft, or damage to surplus property is a potential liability for the County. Consideration should be given to insuring surplus property using a per item cost benefit approach. Consideration should also be given to further enhancing the security of the compound.

Management Response, June 2001: The Risk Management & Safety Coordinator (the Risk Manager), along with the OMB Director, will discuss with the County Administrator whether the County should insure surplus property. If it is decided that surplus property should be insured, the parties will discuss what type of items should be insured and what dollar limits should be considered. The determination of the security of the compound will be resolved by the County Administrator. Target Date: June 2002

Management Response, August 2004: This issue was discussed with the County Administrator in 2001. It was his recommendation that nothing be done at that time. It was discussed with the prior County Administrator in 2002. It was his recommendation that nothing be done at

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that time. The OMB Director, OMB Supervisor and the Risk Manager will address this issue again with the new County Administrator in the next fiscal year (04/05).

Discussion Point, February 2005: Per management's response, the recommendation has not yet been implemented. Therefore, the ASD did not appraise the adequacy of the surplus property insurance process.

CERTIFICATES OF INSURANCE

Discussion Point, June 2001: During fieldwork, the ASD became aware of a lease agreement for County owned properties whose combined historical cost exceeded \$23 million. The agreement states that the Lessee will furnish the Lessor (Hernando County) with original or binders of renewal insurance policies for each policy prior to the expiration date of the expiring policy. Further, the lease requires that all policies (exclusive of worker's compensation) called for under this agreement must identify Hernando County as an additional named insured.

Since the County did not have the certificates of insurance on file, the certificates did not encompass all of the insurance policy requirements stipulated in the agreement, and the County was not listed as additional insured on the insurance certificates reviewed, it does not appear the County adequately monitored the contract. The RMO indicated that it had not been given the responsibility of tracking insurance compliance for this agreement. The ASD was unable to identify a County department that was tracking this Lessee's compliance with the insurance requirements as stated in the lease agreement. The ASD identified three other leased properties for which the verification of insurance coverage did not appear to be adequate.

Currently, several departments track certificates of insurance as required by contracts, lease agreements and special events. There is no centralized system for tracking these certificates. The County could potentially be exposed to financial loss if the County or a third party vendor is not adequately insured.

Recommendation, June 2001: Planning for the negative consequences of risk is essential in minimizing the County's potential for financial loss. Having adequate insurance language in contracts/agreements and monitoring applicable certificates of insurance is a method of controlling this exposure. If buildings are leased, the County (as Lessor) should ensure insurance-contract compliance at least annually. Consideration should be given to centralizing the system of monitoring insurance compliance.

Management Response, June 2001: The RMO and the OMB agree with Finance that the tracking of insurance certificates is a critical issue. The question is if tracking of certificates should remain decentralized, be centralized or be done another way. They will be holding discussions with management as to how management wants to proceed on this issue. Target Date: June 2002

Management Response, August 2004: This critical issue was discussed with the two previous County Administrators with no decision made as to solution. In August 2004, the new County Administrator has determined that all "original" Certificates of Insurance be centralized in the RMO for tracking purposes. A process/system for accomplishing this feat is being worked out at this present time for implementation 10/1/04.

Discussion Point, February 2005: The County centralized the system of monitoring insurance compliance. This function will be performed by the RMO. This newly implemented procedure is not yet fully developed and operational. An area that requires immediate attention is a lack of adequate monitoring of County leased properties' insurance coverage.

Recommendation, February 2005: Due to the large dollar value of some leased properties, immediate consideration should be given to implementing an adequate monitoring procedure that ensures that the RMO is notified of any and all real property leases in a timely manner. The RMO should ensure that the insurance requirements are monitored appropriately, per lease agreement stipulations.

CLAIM PROCESSING

Discussion Point, June 2001: The RMO is notified of a potential claim via Accident/Incident reports or verbal communication from user departments. Consistent with policy it appears that, generally, Accident/Incident reports are prepared on the day of the accident/incident and submitted to the RMO within two business days. For the minor exceptions found, the RMO indicated that the user department had notified the RMO of the accident/incident via telephone or e-mail but this was not documented in the file.

Once the RMO is notified of a potential claim and determines that a claim for loss should be filed, the insurance broker and/or insurance carrier are notified. Currently, follow-up is not performed routinely, but files are purged annually or more often as time allows. The Risk Management & Safety Coordinator (the Risk Manager) indicated that this is due to time constraints and workload.

A few claim files were identified that did not appear to have adequate support and/or documentation. The RMO indicated that this was partly due to not receiving adequate claims related information from the appropriate insurance carrier. The RMO indicated that this prompted communications with the insurance carrier which the RMO indicated led to a resolution to the problem. However, the communication with the insurance carrier and/or the claimant to obtain the appropriate information was not documented in the files and the status of the claim was difficult to ascertain.

The Risk Management & Safety Coordinator (the Risk Manager) receives Accident/Incident reports, processes the claim for loss, receives the insurance proceeds, and receives the insurance company loss run reports. There does not appear to be adequate separation of duties. This could allow the processing of a bogus claim and receipt of the proceeds.

Recommendation, June 2001: To stay abreast of the current status of claims, claims-in-process should be reviewed and compared to insurance loss run reports at least quarterly. Adequate follow-up on open items will ensure that claims are processed as desired.

The RMO inserts a note-to-file in claim file jackets. Consideration should be given to indicating on the note-to-file information that would be beneficial to the reviewer (i.e., correspondence, actions taken, the current status of the claim). This allows for the reviewer to discern what follow-up, if any, is required and the current status of the claim. It also serves as a record to support adequate claims processing.

To minimize the potential for misappropriation of County funds, consideration should be given to segregating the claims processing and receipt of insurance proceeds functions. Adequate segregation of duties can be obtained by having incoming mail opened and insurance proceeds processed by an employee other than the claims processor.

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Management Response, June 2001: In the future, the RMO will file all verbal notes in the appropriate claim file rather than the Risk Management & Safety Coordinator's (the Risk Manger's) planner (where it is currently being documented). This will include the date, the person spoken to, and what was discussed. This procedure will enhance the ability of anyone picking up the file to have adequate knowledge of the claim so that they may proceed with the file or claim. Time permitting, claims-in process will be reviewed on a regular basis and follow up will be done on those that warrant. Risk Management has demanded timely loss runs as a prerequisite of the County's new insurance carrier. Once OMB staff is adequately trained, attention will be given to the segregation of claims processing and receipt of insurance proceeds. Target Date: June 2002

Management Response, August 2004: The RMO has implemented all documentation (verbal and written) on files be written down on the log in the front of each file. With the help of the Risk Management Technician, files are reviewed periodically and pulled once a year for storage.

Discussion Point, February 2005: Based upon communications with management, it appears that at least quarterly claims-in-process are reviewed and compared to insurance loss run reports and twice each year, meetings are held with attorneys, insurance representatives, the OMB Director, the OMB Supervisor, and the RMO Manager to address the status of open claims.

Based upon testing, notes-to-file are utilized in claim file jackets. These appear to be beneficial to the reviewer/user.

Taking into consideration the difficulty for a small department, such as the RMO, to fully segregate incompatible duties, the RMO has taken reasonable measures to do so. Generally, mail is opened and insurance proceeds are processed by an employee other than the claims processor or in conjunction with the claims processor. The insurance claim process is adequately defined in the RMO's SOP manual.