

Meeting Date
January 6, 2015



AGENDA	
Section	CONSENT
Item No.	II.D.2.

AGENDA REPORT
BREVARD COUNTY BOARD OF COUNTY COMMISSIONERS

SUBJECT:	Acceptance, Re: Health Insurance Third-Party Administrators Audit Report, Information Technology Backup & Recovery, Phase II Audit Report (Public) and the Valkaria Airport Audit Report.
DEPT/OFFICE:	County Manager's Office

Requested Action:

It is requested that the Board of County Commissioners accept the Audit Committee's Health Insurance Third-Party Administrators Audit Report, the Information Technology Backup & Recovery, Phase II Audit Report and the Valkaria Airport Audit Report.

Summary Explanation & Background:

The Internal Auditors have completed the Health Insurance Third-Party Administrators Audit Report, the Information Technology Backup & Recovery, Phase II Audit Report (Public) and the Valkaria Airport Audit Report. They were presented to the Audit Committee on June 25, 2014. All of the reports were unanimously accepted and recommended to the Board of County Commissioners by Audit Committee.

The Health Insurance Third-Party Administrators Audit Report is organized as follows:

- A. Background
- B. Objectives and Approach for Health First
- C. Appendix of Procedures and Findings
- D. Objectives and Approach for Cigna
- E. Appendix of Procedures and Findings

The Information Technology Backup & Recovery, Phase II Audit Report (Public)

- A. Letter from the Auditors

The Valkaria Airport Audit Report is organized as follows:

- A. Executive Summary
- B. Background
- C. Objectives and Approach
- D. Observations Matrix

Clerk to the Board instruction:

Exhibits Attached: 1) Health Insurance Third-Party Administrators Audit Report; 2) Information Technology Backup & Recovery, Phase II Audit Report (Public); 3) Valkaria Airport Audit Report.

Contract /Agreement (If attached): Reviewed by County Attorney Yes No PR

County Manager
Stockton Whitten

Assistant County Manager
Mel Scott

Assistant County Manager
Venetta Valdengo

Department Director / Extension



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January 7, 2015

MEMORANDUM

TO: Stockton Whitten, County Manager

RE: Item II.D.2., Acceptance of Health Insurance Third-Party Administrator Audit Report, Information Technology Backup and Recovery, Phase II Audit Report (Public), and the Valkaria Airport Audit Report

The Board of County Commissioners, in regular session on January 6, 2015, accepted the Audit Committee's Health Insurance Third-Party Administrators Audit Report, the Information Technology Backup and Recovery, Phase II Audit Report, and the Valkaria Airport Audit Report.

Your continued cooperation is greatly appreciated.

Sincerely,

BOARD OF COUNTY COMMISSIONERS
SCOTT ELLIS, CLERK

Tammy Etheridge

Tammy Etheridge, Deputy Clerk



**Internal Audit Committee of
Brevard County, Florida**

**Report on
Health Insurance
Third-Party Administrators**

Prepared By:



June 5, 2014

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Background

Overview

The purpose of this review was to ensure that claims were processed accurately, timely and in compliance with the contract terms.

Effective January 1, 2010, Brevard County offered two health insurance plans (Health Reimbursement Account ["HRA"] or Preferred Provider Organization ["PPO"]) to all of its full time employees. The health insurance plans operate based on a calendar year beginning January 1, 2010. During the calendar year under review, Brevard County employees could choose from either Health First ("HF") or CIGNA. During our last internal audit of these claims, issued October 2010, it was determined that, the Health Reimbursement Account "HRA" plan contained the most risk since this type of plan is relatively new to the insurance market and it was specifically designed by the Third Party Administrator ("TPA") to meet Brevard County's insurance needs.

We performed the self-insurance claims review procedures on the Brevard County members covered under the HRA plans and the processing of their claims by HF and CIGNA for the period beginning January 1, 2012 and ending December 31, 2012. The results of the self-insurance claims review procedures performed for members covered under the HRA plans of HF and CIGNA and the processing of their claims are presented under separate tabs within this report.

The following table shows the number of contracts under the HRA plan by category and by each insurer as of December 31, 2012:

Insurer	Plan	Category	# of Contracts	% within each plan	% within total
HF	HRA				
		Active employees with an annual salary less than \$35,000	282	37.9%	
		Active employees with an annual salary between \$35,000 - \$70,000	401	53.9%	
		Active employees with an annual salary greater than \$70,000	31	4.2%	
		Retirees	30	4.0%	
		HRA TOTAL	744	100.0%	26.4%
CIGNA	HRA				
		Active employees with an annual salary less than \$35,000	920	44%	
		Active employees with an annual salary between \$35,000 - \$70,000	637	31%	
		Active employees with an annual salary greater than \$70,000	62	3%	
		Retirees	453	22%	
		HRA TOTAL	2,072	100.0%	73.6%
		TOTAL	2,816		100.0%

Objectives and Approach for Health First

Objectives

The objectives of the agreed upon procedures included ensuring the following:

- Each member's HRA account was correctly established by HF.
- Deductibles and coinsurance were calculated appropriately.
- If there was a balance in the corresponding member's HRA account, that applicable deductibles and coinsurance were forwarded to the medical provider and an Explanation of Benefits was sent to the member.
- Deductibles and coinsurance were appropriately accounted for in each member's annual Deductible and Out of Pocket Maximum limits.
- Each member's HRA account was adjusted appropriately for deductibles and coinsurance.
- Medical providers were appropriately paid by HF.

Approach

Our approach consisted of three phases:

Understanding and Documentation of the Process (Phase 1)

During Phase 1 we met with the Brevard County Insurance Director, members of RobinsonBush (the County's benefit consultants) and members of HF to discuss the scope and objectives of the self-insurance claims review procedures and obtained preliminary data. We also obtained and reviewed the Brevard County Board of County Commissioners, Florida *Medical Summary Plan Description and HRA Plan Description* ("SPD") effective January 1, 2012.

Detailed Testing (Phase 2)

We conducted the following procedures to meet our objectives outlined above:

Each member's HRA account was correctly established by HF:

- From the population of HRA members provided by Brevard County, we randomly selected a sample of 60 members' HRA accounts and reviewed salary information and coverage type (i.e. individual or family). Using the SPD, we determined the amount that HF should have established in each member's HRA account. We then compared this amount to the amount actually established by HF as evidenced by the HRA contribution and usage data provided to us by HF.

Deductibles and coinsurance were calculated appropriately:

- We selected a sample of claims for each of the 60 members sampled above. For each of the claims, we reviewed the descriptions of services performed by the medical providers. Based on these descriptions and Part III of the SPD (i.e. the HRA Plan Summary of Benefits), we determined the related deductible and/or coinsurance portions that should have been applied by HF. We then reviewed documentation of the processing for each claim by HF to verify that HF had appropriately processed the claims.

Applicable deductibles and coinsurance were forwarded out of the member's HRA accounts to the medical provider and an Explanation of Benefits was sent to the member:

- We reviewed files provided to us by HF for each member to verify that applicable deductible and coinsurance amounts had been forwarded out of the member's HRA account to the medical providers. When applicable, we also reviewed the Explanation of Benefits sent to the member.

Objectives and Approach for Health First - continued

Detailed Testing (Phase 2) - continued

Deductibles and coinsurance were appropriately accounted for in each member's annual Deductible and Out of Pocket Maximum limits:

- For each of the claims selected above, we reviewed documentation of the member's annual Deductible and Out of Pocket Maximum limits provided to us by HF to verify that they were in agreement with Part III of the SPD (i.e. the HRA Plan Summary of Benefits) and that the deductibles and/or coinsurance had been appropriately accounted for.

Each member's HRA account was adjusted appropriately for deductibles and coinsurance:

- We reviewed the *Explanation of Benefits* sent to the members and other pertinent documentation for each member to verify that applicable deductible and coinsurance payments to medical providers had been appropriately accounted for in their HRA accounts.

Medical providers were appropriately paid by HF:

- We verified through documentation provided to us by HF that the medical providers had been paid appropriately.

Reporting (Phase 3)

At the conclusion of our audit, we documented our understanding of the process surrounding HF's processing of claims and summarized our findings. We conducted an exit interview with HF personnel to ensure our understanding of the findings were accurate. The report was prepared and related findings were provided to appropriate County personnel.

Our procedures and findings are as follows in Appendixes A and B, and the TPA response at Appendix C.

APPENDIX A

1. **Procedure**

Obtain from Brevard County a system generated listing of all employees and retirees under HF health plans for the period January 1, 2012 through December 31, 2012:

Finding

The listing was obtained without exception.

2. **Procedure**

Each employee and retiree has a unique contract number that is assigned to them and shared by their family members covered under the plan, if any. From the listing obtained in Procedure 1 above, we randomly selected a sample of sixty (60) unique contract numbers from the HRA plan. The percentage selected from each income category was consistent with the percentage of Brevard County employees in each income category. We then selected up to four (4) claims per contract number for a maximum sample of 240 claims. When there were no claims related to one of the sixty (60) contract numbers then we selected an alternate contract number. We selected sixty (60) unique contract numbers with 205 related claims spread across the population as follows:

Category	Number of Contracts	Number of Claims
Plan 1 - Active employees with an annual salary less than \$35,000	23	76
Plan 2 - Active employees with an annual salary between \$35,000 - \$70,000	32	109
Plan 3 - Active employees with an annual salary greater than \$70,000	3	12
Plan 3 - Retirees	2	8
Total	60	205

Finding

The sample was pulled without exception.

3. **Procedure**

For the sample of 205 claims selected in Procedure 2 above, we tested to determine whether HF correctly processed the claims and made appropriate payments to the medical provider and, if applicable, the member. The following procedures were performed for each of the claims selected:

- a) Verified that the corresponding member's HRA account was correctly established by HF.
- b) Verified that deductibles and coinsurance had been calculated appropriately based on Part III of the Summary Plan Description (i.e. the HRA Plan Summary of Benefits).
- c) If there was a balance in the corresponding member's HRA account, verified that applicable deductibles and coinsurance had been forwarded to the medical provider and an Explanation of Benefits had been sent to the member.
- d) Verified that deductibles and coinsurance had been appropriately accounted for in the member's annual Deductible and Out of Pocket Maximum limits.
- e) Verified that the member's HRA account had been adjusted appropriately for deductibles and coinsurance.
- f) Verified that medical providers had been appropriately paid by HF.

APPENDIX A - continued

3. Procedure – continued

Finding

- a) For the sample of members selected, it appears as though their HRA accounts were correctly established.
- b) One (1) of the 205 claims sampled had a deductible that was calculated incorrectly and resulted in an overpayment by the employee in the amount of \$125.13. This exception appears to be the result of an incorrect component applied to the system benefit configuration, which caused Deductible/Coinsurance/HRA to apply incorrectly. All other claims tested had deductibles and/or coinsurance that were correctly calculated.
- c) Two (2) of the 205 claims sampled contained manual input errors where the member was required to pay out-of-pocket even though the HRA contained a positive balance to draw from as follows: 1) Claim #121310000081 was part of 2 other claims for the same incident. The member had to pay 20% co-insurance (\$765.41) when they still had \$1,000 remaining in the HRA account and the member ended up rolling \$854.83 in their HRA to the next year. 2) Claim #120270E00780 only had \$10.00 paid from the employees HRA account while the member had to pay \$131.10 out of pocket even though there was \$445.43 remaining in the employees' HRA account. The member's HRA account was exhausted by EOY.
- d) For the sample of claims selected, the members' deductible and coinsurance appeared to have been appropriately accounted for in the corresponding member's annual Deductible and Out of Pocket Maximum limits.
- e) For the sample of claims selected, the members' HRA accounts appeared to have been appropriately adjusted for payments of deductibles and coinsurance other than those noted in part c above.
- f) For the sample of claims selected, the medical providers appeared to have been paid appropriately.

APPENDIX B

Summary of Findings

Finding with Claim Number(s)	Amount
3.b. Deductible calculated incorrectly:	
1. 121020E01198	\$125.13
3.c. Deductible and/or coinsurance incorrectly forwarded to medical provider from employees HRA account:	
1. 121310000081	765.41
2. 120270E00780	131.10

APPENDIX C

Health First's Response to Audit Findings

Finding 3.b

We concur with the findings related to the identified overpayment that resulted in erroneously overcharging the employee \$125.13. As part of Health First's continuous commitment to quality, identified errors are addressed through various means, including, but not limited to, root cause analysis, staff training, system and/or configuration correction and building 'lessons learned' into an on-going internal audit process. This error has since been corrected and the employees HRA balance adjusted.

Finding 3.c

We concur with the findings related to the identified manual input errors that resulted in the employees being required to pay out of pocket versus utilizing their HRA balances. Health First is committed to quality; as we identify these types of errors we work directly with the employees administering these benefits to reinforce accurate processing. Additionally, our employees are expected to maintain quality and efficiency standards. This error has since been corrected and the members HRA balances adjusted.

Objectives and Approach for CIGNA

Objectives

The objectives of the agreed upon procedures included ensuring the following:

- Each member's HRA account was correctly established by CIGNA.
- Deductibles and coinsurance were calculated appropriately.
- If there was a balance in the corresponding member's HRA account, that applicable deductibles and coinsurance were forwarded to the medical provider and an Explanation of Benefits was sent to the member.
- Deductibles and coinsurance were appropriately accounted for in each member's annual Deductible and Out of Pocket Maximum limits.
- Each member's HRA account was adjusted appropriately for deductibles and coinsurance.
- Medical providers were appropriately paid by CIGNA.

Approach

Our approach consisted of three phases:

Understanding and Documentation of the Process (Phase 1)

During Phase 1 we met with the Brevard County Insurance Director, members of RobinsonBush (the County's benefit consultants) and members of CIGNA to discuss the scope and objectives of the self-insurance claims review procedures and obtained preliminary data. We also obtained and reviewed the Brevard County Board of County Commissioners, Florida *Medical Summary Plan Description and HRA Plan Description* ("SPD") effective January 1, 2012.

Detailed Testing (Phase 2)

We conducted the following procedures to meet our objectives outlined above:

Each member's HRA account was correctly established by CIGNA:

- From the population of HRA members provided by Brevard County, we randomly selected a sample of 60 members' HRA accounts and reviewed salary information and coverage type (i.e. individual or family). Using the SPD, we determined the amount that CIGNA should have established in each member's HRA account. We then compared this amount to the amount actually established by CIGNA as evidenced by the HRA contribution and usage data provided to us by CIGNA.

Deductibles and coinsurance were calculated appropriately:

- We selected a sample of claims for each of the 60 members sampled above. For each of the claims, we reviewed the descriptions of services performed by the medical providers. Based on these descriptions and Part III of the SPD (i.e. the HRA Plan Summary of Benefits), we determined the related deductible and/or coinsurance portions that should have been applied by CIGNA. We then reviewed documentation of the processing for each claim by CIGNA to verify that CIGNA had appropriately processed the claims.

Applicable deductibles and coinsurance were forwarded out of the member's HRA accounts to the medical provider and an Explanation of Benefits was sent to the member:

- We reviewed files provided to us by CIGNA for each member to verify that applicable deductible and coinsurance amounts had been forwarded out of the member's HRA account to the medical providers. When applicable, we also reviewed the Explanation of Benefits sent to the member. We viewed the date the claim was processed in the system as evidence the Explanation of Benefits was generated and sent.

Objectives and Approach for CIGNA - continued

Deductibles and coinsurance were appropriately accounted for in each member's annual Deductible and Out of Pocket Maximum limits:

- For each of the claims selected above, we reviewed documentation of the member's annual Deductible and Out of Pocket Maximum limits provided to us by CIGNA to verify that they were in agreement with Part III of the SPD (i.e. the HRA Plan Summary of Benefits) and that the deductibles and/or coinsurance had been appropriately accounted for.

Each member's HRA account was adjusted appropriately for deductibles and coinsurance:

- We reviewed the HRA account balance of each member and other pertinent documentation for each member to verify that applicable deductible and coinsurance payments to medical providers had been appropriately accounted for in their HRA accounts.

Medical providers were appropriately paid by HF:

- We verified through documentation provided to us by CIGNA that the medical providers had been paid appropriately.

Reporting (Phase 3)

At the conclusion of our audit, we documented our understanding of the process surrounding CIGNA's processing of claims and summarized our findings. We conducted an exit interview with CIGNA personnel to ensure our understanding of the findings were accurate. The report was prepared and related findings were provided to appropriate County personnel.

Our procedures and findings are as follows in Appendixes D and E, and the TPA response at Appendix F.

APPENDIX D

1. **Procedure**

Obtain from Brevard County a system generated listing of all employees and retirees under CIGNA health plans for the period January 1, 2012 through December 31, 2012:

Finding

The listing was obtained without exception.

2. **Procedure**

Each employee and retiree has a unique contract number that is assigned to them and shared by their family members covered under the plan, if any. From the listing obtained in Procedure 1 above, we randomly selected a sample of sixty (60) unique contract numbers from the HRA plan. The percentage selected from each income category was consistent with the percentage of Brevard County employees in each income category. We then selected up to four (4) claims per contract number until we reached a maximum sample of 225 claims. When there were no claims related to one of the sixty (60) contract numbers then we selected an alternate contract number. We selected sixty (60) unique contract numbers with 225 related claims spread across the population as follows:

Category	Number of Contracts	Number of Claims
Plan 1 - Active employees with an annual salary less than \$35,000	26	102
Plan 2 - Active employees with an annual salary between \$35,000 - \$70,000	19	75
Plan 3 - Active employees with an annual salary greater than \$70,000	2	8
Plan 3 - Retirees	13	40
Total	60	225

Finding

The sample was pulled without exception.

3. **Procedure**

For the sample of 225 claims selected in Procedure 2 above, we tested to determine whether CIGNA correctly processed the claims and made appropriate payments to the medical provider and, if applicable, the member. The following procedures were performed for each of the claims selected:

- a) Verified that the corresponding member's HRA account was correctly established by CIGNA.
- b) Verified that deductibles and coinsurance had been calculated appropriately based on Part III of the Summary Plan Description (i.e. the HRA Plan Summary of Benefits).
- c) If there was a balance in the corresponding member's HRA account, verified that applicable deductibles and coinsurance had been forwarded to the medical provider and an Explanation of Benefits had been sent to the member.
- d) Verified that deductibles and coinsurance had been appropriately accounted for in the member's annual Deductible and Out of Pocket Maximum limits.
- e) Verified that the member's HRA account had been adjusted appropriately for deductibles and coinsurance.
- f) Verified that medical providers had been appropriately paid by CIGNA.

APPENDIX D - continued

3. Procedure – continued

Finding

- a) For the sample of members selected, it appears as though their HRA accounts were correctly established.
- b) For the sample of claims selected, it appears all had deductibles and/or coinsurance that were correctly calculated.
- c) One (1) of the 225 claims sampled was a duplicate claim that was denied by CIGNA. Even though the claim was denied, the members HRA account was deducted for the claim amount, \$84.82. This exception appears to be the result of an incorrect denial code applied during processing that listed the denied service as a patient liability. The claim should have been excluded as a duplicate payment, which would not reflect any remaining patient liability. All other claims tested had deductibles and/or coinsurance that were correctly calculated.
- d) For the sample of claims selected, the members' deductible and coinsurance appeared to have been appropriately accounted for in the corresponding member's annual Deductible and Out of Pocket Maximum limits.
- e) For the sample of claims selected, the members' HRA accounts appeared to have been appropriately adjusted for payments of deductibles and coinsurance other than the one noted in part c above.
- f) For the sample of claims selected, the medical providers appeared to have been paid appropriately.

APPENDIX E

Summary of Findings

Finding with Claim Number	Amount
3.c & 3.e. HRA account reduced incorrectly:	
1. 8431235596976	\$84.82

APPENDIX F

CIGNA's Response to Audit Findings

Executive Summary

Cigna was pleased to host Carr, Riggs & Ingram, LLC in our Chattanooga, TN Service Center for the claim procedure review during the week of April 21, 2014. This was a focused review of Health Reimbursement Account payments for dates between January 1, 2012 and December 31, 2012.

Cigna is in agreement with the audit findings as reported by Carr, Riggs & Ingram, LLC. Cigna is pleased with the findings of this review noting applicable plan deductibles and/or coinsurance provisions were being calculated correctly, that HRA accounts were properly established and that the testing reflected the medical providers receiving appropriate payments in accordance with Brevard County Board of County Commissioners' (BOCC) benefit plan. Of the 225 medical claims tested by Carr, Riggs & Ingram, LLC, only a single error was observed resulting in an incorrect payment of \$84.42.

Cigna has confirmed the single overpayment in the amount of \$84.42 and has initiated corrective actions. The overpayment has been referred to initiate recovery efforts and the amount will be credited back to the customer's record. While the HRA payment was issued incorrectly, the underlying cause of the payment error stemmed from an incorrect denial code utilized in the processing of the underlying medical claim, which noted the balance remaining on the claim as patient liability. The error has been shared with Claim Management to determine if any additional improvement opportunities are warranted to further minimize the chance of this defect occurring in the future.

Cigna appreciates the thoroughness of Carr, Riggs & Ingram, LLC's review and partnership during the onsite audit. Cigna looks forward to discussing the outcome of this review with Brevard County BOCC should they have any questions.



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June 6, 2014

The Audit Committee of Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved internal audit plan, we have completed our Phase II internal audit covering the Information Technology Backup and Recovery procedures for Brevard County ("County"). The subject matter covered under this audit is confidential in nature, and thus exempt from Florida Statutes 119.07(1) and 286.001; specific details are not disclosed to avoid the possibility of compromising County information and security.

This exemption from Florida Statutes and other laws and rules requiring public access or disclosure is addressed under Florida Statute 281.301, *Security systems; records and meetings exempt from public access or disclosure*. We will be presenting this public report to the Audit Committee at the next scheduled meeting on June 25, 2014, and all confidential matters have been communicated with appropriate personnel at the County.

In conjunction with this internal audit, we have provided management with recommendations related to the existing Standard Operating Procedures for backup and recovery of certain systems and applications at the County. We issued an initial report in May, 2013, and Management agreed to the recommended changes. This is a follow-up report on the status of the recommended changes and implementation progress. There were initially 30 observations and recommendations. Eleven have been completed or transitioned to the Sheriff, and 19 are open / in progress.

We would like to thank the various members of the Information Technology department involved in assisting the Internal Auditors in connection with the Information Technology Services Backup and Recovery process.

Respectfully Submitted

INTERNAL AUDITORS



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit of the
Valkaria Airport**

Prepared By:
Internal Auditors
June 5, 2014



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June 5, 2014

The Audit Committee of
Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved 2013/2014 internal audit plan, we hereby submit our internal audit report covering Valkaria Airport. We will be presenting this report to the Audit Committee at the next scheduled meeting on June 25, 2014.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the results related to our audit.
Background	This provides an overview of Valkaria Airport and the related issues.
Objectives and Approach	The objectives and focus are expanded upon in this section as well as a review of our approach.
Observations Matrix	This section presents the results of our audit procedures, including our findings and recommendations.

We would like to thank all those involved in assisting the Internal Auditors in connection with the internal audit of Valkaria Airport.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Executive Summary

The objective of the audit was to evaluate whether the system of internal controls in place at Valkaria Airport is adequate to absorb and facilitate the additional needs and requirements of the airport after planned expansion and related operations activities increase.

Each issue is assigned a relative risk factor. Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business. Following is a high level summary of the major issues identified during our audit. The details of these issues are included within the Observations Matrix section of this report.

Observations	Risk Rating
1. Growth Planning and Operational Responsiveness	
<p>Observation: Since 2006, the airport has significantly expanded operations and completed more than \$15 million in improvements through grant funding and approvals in accordance with the Airport Master Plan and FAA Guidelines. The airport continues the expansion plan with an additional \$5 million in current and planned upcoming projects. During our interviews, observations and testing, we noted there are informal, undocumented processes and procedures in place, as well as staff resource limitations. Specifically, we noted items related to the ability to absorb the expansion within the current operating structure in the areas of Operational Growth Planning, Staffing / Segregation of Duties, Documented Operating Procedures and Succession Planning.</p> <p>Recommended Action: We have made specific recommendations in the areas noted above in order to address the continued growth of the airport and strengthen the control environment. These include updating the Airport Master Plan, documenting preparation and review for evidence of segregation of duties, documenting procedures around certain activities, and a consideration for staffing and succession planning.</p>	High
2. Timeliness or Frequency of Bank Deposits	
<p>Observation: The airport receives approximately \$25,000 per month in hangar and tie-down rentals. Per discussion with the Airport manager, these payments are made primarily at the beginning of the month by customer walk-in, and in check format. The County does not have a formalized / written policy governing the required frequency of bank deposits; however, County Finance provides guidance annually to all departments to use their best judgment based upon the volume and amount of transactions, and encourages at least weekly deposits. We noted for our sample of three months during the audit period, deposits were made at the bank once per month.</p> <p>Recommended Action: We recommend that deposits be made on a more frequent basis. Best practice is that funds are deposited as often as practicable and not later than 5 business days after receipt. At a minimum, the Airport should consider bi-monthly deposits.</p>	Moderate

Executive Summary - continued

Observations	Risk Rating
3. Hangar Lease and Tie-Down Permit Agreements	
<p>Observation: During our testing, we noted one missing tie-down permit agreement, three missing insurance certificates, and inconsistencies in the required insurance coverage and payment due dates.</p> <p>Recommended Action: We recommend the airport perform a review of all active lease agreements and tie-down permits to verify that they include the desired terms and conditions present in the most updated form, including required insurance coverage. Updated hangar leases, tie-down permit agreements and insurance certificates should be obtained where needed. Further, for consistency and in relation to the timeliness of deposits, the payment due dates for the tie-down permit agreements should be updated to align with those in the hangar lease agreements. The County attorney's office should be consulted before any contract terms and conditions are revised.</p>	Moderate

Background

Background

Overview

Valkaria Airport ("the Airport") is a non-towered public-use general aviation airport owned and operated by Brevard County ("the County") under a 1958 quit claim deed from the US Government. The Airport is primarily used for recreational flying and for landing practice by nearby training schools, and primarily serves the communities of Grant-Valkaria, Malabar, and Palm Bay. The Airport provides operational oversight of four active runways, associated taxiways, parking areas, aircraft tie-down areas and 71 T-hangar units. Additionally, the Airport provides land and facilities for the Habitat golf course and the County Mosquito Control department.

The Airport performs routine maintenance of runways and taxiways and other facilities funded through grants received from the Federal Aviation Administration (FAA) and the Florida Department of Transportation (FDOT) with matching funds generated from airport revenues. Ongoing capital improvement projects are also implemented as approved by the Board of County Commissioners and funded through grants and matching funds from airport revenues.

The most recent Airport Master Plan was completed in 2006. There have been many safety-related and capital improvement projects since the current plan was completed. Available hangar space has doubled and the activity has increased to approximately 35,000 to 45,000 aircraft operations per year, with approximately 100 aircraft traveling through the airport per day. The Airport has also completed improvements that cater to non-aviation activities to broaden service to the public, such as Skyman Park.

According to the County's adopted budget, the Airport's most recent accomplishments include:

- Completed rehabilitation of apron and taxiway, including addition of new drainage pond
- Completed construction of new parallel taxiway
- Completed construction of new hangar project
- Completed construction and rehabilitation of runway

Planned current and future initiatives include:

- Airport Master Plan update
- Design and permitting of new airport administration building
- Update fuel farm equipment, pumps, and credit card reader
- Design and permitting new hangar project
- Preliminary work for future runway rehabilitation

Funding Sources

The Airport's operational funding is derived from charges for services through hangar space rental and aircraft tie-down permits, as well as fuel sales. The Airport does not receive any funding from the County's general revenue funds.

The Airport also receives grant Federal grant funds from the Federal Aviation Administration (FAA) under the Airport Improvement Program (AIP) as one of 3,355 qualified airports identified by the National Plan of Integrated Airport Systems (NPIAS). The NPIAS identifies airports that are eligible to receive Federal grants under the AIP because of their importance to public transportation. Eligible projects under the AIP include those improvements related to enhancing airport safety, capacity, security, and environmental concerns, as well as professional services necessary for eligible projects. Project expenses are reimbursed at a 90% rate by the AIP. Projects related to airport operations, revenue-generating improvements, and operational costs such as salaries, equipment, and supplies, are typically not eligible for funding. Under this program, the Airport automatically receives \$150,000 in entitlement funds per year. For FY2014, these grant funds will be used to update the airport master plan study.

The Airport also receives grant funds through the County from the Florida Department of Transportation (FDOT), under Joint Participation Agreements. Under Florida law, the FDOT may fund any capital projects on airport property and any services that lead to capital projects, such as planning and design services. The projects must be part of a FDOT-approved airport master plan and/or airport layout plan. The associated projects are reimbursed at 80% by the FDOT, with 20% matched by the Airport.

Background - continued

Financial Statistics

The Airport's most recent Capital Improvements Program is below:

Capital Improvements Program FY2013-2014

Project Description	Funding Source	Total Cost
Rehabilitation Runway 10/28	FAA	\$ 1,890,000
	FDOT	\$ 168,000
	Charges for Services	\$ 42,000
New Hangar D	FDOT	\$ 1,120,000
	Balance Forward Capital	\$ 241,634
Fuel Farm Update	FDOT	\$ 80,000
	Charges for Services	\$ 20,000
Design Airport Administration Building	FDOT	\$ 60,000
	Charges for Services	\$ 15,000
	Total FAA Funding	\$ 1,890,000
	Total FDOT Funding	\$ 1,428,000

Airport Mission

The mission of the Airport is "to provide a safe and secure operating airport, twenty-four hours per day/seven days per week, both airside and landside; to provide a pilot briefing area, aviation fuel, hangar space, tie-downs, retail merchandise and other ancillary services to meet the demands of airport users while, at the same time, reducing current operating expenses."

Organizational Structure

The Airport is led by the Airport Manager. There is one other full-time position, Airport Operations Specialist, who reports to the Airport Manager. There is also one approved .5 FTE part-time operational position that is currently vacant.

Objectives and Approach

Objectives and Approach

Objectives

The objective of the audit was to evaluate whether the system of internal controls in place at Valkaria Airport is adequate to absorb and facilitate the additional needs and requirements of the airport after planned expansion and related operations activities increase.

Approach

Our audit approach consisted of three phases:

Understanding and Documentation of the Process

We interviewed the Assistant County Managers, Airport Manager and Airport Operations Specialist. We also reviewed documents including budgets of Valkaria Airport, disbursement and receipt documentation, policies and procedures, Board of County Commissioners meeting minutes, the current Airport Master Plan, FAA Airport Rules and Regulations, and sample hangar and tie-down agreements. We developed process maps depicting the flow of transactions and controls as it relates to the procedures performed and provided them to management for use and training.

Detailed Testing

The purpose of this phase was the development of applicable detail tests to meet our objectives as follows:

- Review operating processes for adequate internal controls and best practice recommendation opportunities.
- Evaluate timeliness of a sample of deposits and agree total revenue between the bank receipt documentation, airport revenue records, and County Finance records.
- Test a sample of active hangar leases for the following:
 - Signed lease agreement is on file in the most updated format and includes relevant terms such as insurance requirement, payment due date, and rent escalation clause,
 - Rental fee amounts were in accordance with the lease contract and any applicable adjustment calculations were calculated accurately using the correct index information,
 - Monthly rent payments were received timely and late fees were charged in accordance with the lease agreement, and
 - Current proof of insurance is on file, lists the County as an additional insured party, and shows coverage for amount required by lease contract.
- Test a sample of tie-down activity for the following:
 - Signed tie-down permit agreement is on file in the most updated format and includes relevant terms such as insurance requirement and payment due date,
 - Payment amounts were in accordance with the tie-down agreement,
 - Tie-down payments were received timely and late fees were charged in accordance with the tie-down agreement, and
 - Current proof of insurance is on file, lists the County as an additional insured party, and shows coverage for amount required by the tie-down agreement.
- For a sample of new hangar lease tenants during the audit period, verify that the hangar was offered to the next applicant on the waiting list by order of application date.
- For a sample of current waiting list applicants, verify that signed documentation is on file indicating the date of application and that the applicant appears to be in the proper place on the list based on application date.



Objectives and Approach

Approach - continued

Detailed Testing- continued

- For one selected month, obtain documentation of the safety inspections of the fuel farm completed by airport personnel to verify adequate documentation.
- Verify that an annual inspection of the fuel tanks was completed by the Florida Department of Environmental Protection within the last year, and perform follow up on any uncorrected items noted to be out of compliance.
- Review reconciliation of third-party vendor fuel sales and purchases, or perform reconciliation if none is currently performed.

We did not review the process for grant expenditures or grant compliance for the Airport Improvement Program grant, as those were subject to audit under the requirements of the United States Office of Management & Budget Circular A-133 during each the last two fiscal years by the County's external auditor, as well as an internal review performed by the County Clerk's office. There were no findings noted by the external auditor, and one finding in the report by the County Clerk's office that was for immaterial interest related to the grant funding.

Reporting

At the conclusion of our audit, we summarized our findings and conducted an exit conference with the County Manager, the Assistant County Manager, Airport Manager and Airport Operations Specialist. We incorporated management's responses into our report.

Observations Matrix

Observations Matrix

Risk	Observation	Recommended Action	Management's Response
<p>High</p>	<p>1. Growth Planning and Operational Responsiveness</p> <p>Since 2006, the airport has significantly expanded operations and completed more than \$15 million in improvements through grant funding and approvals in accordance with the Airport Master Plan and FAA Guidelines. The airport continues the expansion plan with an additional \$5 million in current and planned upcoming projects. During our interviews, observations and testing, we noted there are informal, undocumented processes and procedures in place, as well as staff resource limitations. Specifically, we noted the following items related to the ability to absorb the expansion within the current operating structure:</p> <p><u>Growth Planning</u></p> <p>The Airport's most recent update to the Airport Master Plan (AMP) and Airport Layout Plan (ALP) was performed in 2006. In the years since, there have been changes to the airport facility, aviation activity, and other factors affecting airport planning. Further, the facility has additional needs and upgrades that are not included in the most recent plan.</p> <p>While an update is not required, an updated AMP and ALP would provide guidance for the anticipated future airport development to satisfy aviation demand while considering environmental and socioeconomic costs. In addition, a funding plan can be developed for implementing the new ALP, and allow the facility to negotiate funding within existing revenue streams as well as seek additional grants, as needed.</p>	<p><u>Growth Planning</u></p> <p>We recommend that the Airport continue with their plan to update the AMP and ALP in the upcoming fiscal year to reflect an updated aviation activity forecast, facility plan update, demand/capacity concerns, environmental considerations and other stakeholder concerns.</p> <p>The updated Plans will also include current benchmarking data to allow the Board of County Commissioners as well as the public to better understand how the changes that have been made to-date have impacted the Airport in comparison to other facilities within proximity.</p>	<p>Response:</p> <p>We concur with the recommendations. The AMP & ALP are planned for update next fiscal year. Work has started on formalizing and documenting operating procedures.</p> <p>A succession plan will be formalized and completed after the AMP has been updated next fiscal year.</p> <p>Responsible Party: Stephen Borowski, Airport Mgr.</p> <p>Estimated Completion Date: September 30, 2015</p>

Observations Matrix - continued

Risk	Observation	Recommended Action	Management's Response
<p>High</p>	<p>1. Growth Planning and Operational Responsiveness - continued</p> <p><u>Staffing / Segregation of Duties</u></p> <p>The airport's staffing level has remained constant at two full-time employees, even as aviation activity and services have increased, as noted above. Due to the staffing limitations of only two full time employees, the duties of billing, cash collections, and deposit preparation are not properly segregated. It should be noted that staff represents that the duties are separated when both employees are present, however, there is no documented evidence that can be tested to support that representation. Further, County Finance personnel perform the bank reconciliation and verify that the revenue support provided by the Airport matches the deposits per the bank statement. We also noted there is a part-time operational position that has been vacant since December 2013.</p> <p><u>Documented Operating Procedures</u></p> <p>As the airport continues to grow, documented operating procedures will serve as an important tool to ensure established processes are performed consistently in the future. Currently, there are no formal, documented procedures for billing for leases and tie-down agreements, the collections process and late fee assessment, making deposits, calculating annual lease fee escalations, verification of required insurance coverage, and documentation and reconciliation of fuel purchases and sales. We did note BCC-79 for overall Airport operational policies, as well as an approved standard lease agreement for hangar rental and tie-down permits, and a hangar waiting list procedure and related application.</p>	<p><u>Staffing / Segregation of Duties</u></p> <p>Utilizing the current cash collections and deposit process, we recommend the following enhancements:</p> <ul style="list-style-type: none"> • The Monthly Revenue Summary should be signed off on by a preparer and a reviewer to document segregation of duties. • Two persons should be present when the mail is opened. <p>We recommend that the Airport also consider utilizing a lockbox to increase segregation of duties over cash collections and deposits for rental payments and special event fees.</p> <p><u>Documented Operating Procedures</u></p> <p>We recommend the following:</p> <ul style="list-style-type: none"> • The current undocumented procedures should be documented in written form for billing for leases and tie-down agreements, the collections process and late fee assessment, making deposits, calculating annual lease fee escalations, verification of required insurance coverage, and documentation and reconciliation of fuel purchases and sales. • A sign-in sheet or other record of the tie down activity should be kept to be reconciled to the checks received to verify completeness of receipts. • We recommend that the Airport review the current hangar lease waiting list files and verify that a signed and dated application is on file for each applicant listed, and that the application details support the documented waiting list order of priority, and anyone who should no longer be on the list for whatever reason be either removed or notated. 	

Observations Matrix - continued

Risk	Observation	Recommended Action	Management's Response
<p>High</p>	<p>1. Growth Planning and Operational Responsiveness - continued</p> <p><u>Documented Operating Procedures - continued</u></p> <p>We noted the following specific issues related to operating procedures:</p> <ul style="list-style-type: none"> • There is no documented record of the months that the tie-down customers are on-site and should be charged for a tie-down. The current tie-down records include only a log of checks received by customer. • We noted no application form documenting the sign-up date (order of priority) was on file for one of 10 of the waiting list applicants in our sample. Management of the hangar waiting list in a fair and consistent manner protects the increased public interest in this aspect of airport management. • The documentation of the three attempts to contact is not consistent; however, we note that the openings are infrequent and therefore the attempts to contact are rare. <p>Failure to maintain documented operating procedures could lead to inaccurate financial records due to inappropriate recording of transactions, processing errors, or missed activity.</p>	<p><u>Documented Operating Procedures - continued</u></p> <p>We also recommend the following enhancements to the Airport's current waiting list procedures:</p> <ul style="list-style-type: none"> • For hangars that are assigned and accepted, the date and hangar number assigned should be added to the list to document that available hangars were assigned according to the correct priority order. • The following information should be documented for each attempt to contact someone on the wait list: date of contact attempt, contact method (phone, email, etc), contact information used (phone number, email address), and outcome (no answer, disconnected, left message). • The portion of the waiting list consisting of previous applicants or those assigned a hangar should be separated from the actual current waiting list for clarity. <p>A succession plan should be considered with changes in staffing as a result of an updated Airport Layout Plan, if any.</p>	

Observations Matrix - continued

Risk	Observation	Recommended Action	Management's Response
<p>High</p>	<p>1. Growth Planning and Operational Responsiveness - continued</p> <p><u>Succession Plan</u> Succession planning is important for knowledge transfer and role transition to ensure the airport is fully prepared for anticipated growth or unexpected change. Currently, the airport has no formal or written succession plan for turnover or transition of the current Airport Director position. The current Airport Director has significant industry experience and institutional knowledge that make him key to the day to day operations as well as development of long range plans for the airport. Failure to adequately prepare for turnover at key position could negatively affect operations and increase future costs due to lost significant strategic planning knowledge.</p>		

Observations Matrix - continued

Risk	Observation	Recommended Action	Management's Response												
<p>Moderate</p>	<p>2. Timeliness or Frequency of Bank Deposits</p> <p>The airport receives approximately \$25,000 per month in hangar and tie-down rentals. Per discussion with the Airport manager, these payments are made primarily at the beginning of the month by customer walk-in, and in check format. The County does not have a formalized / written policy governing the required frequency of bank deposits; however, County Finance provides guidance annually to all departments to use their best judgment based upon the volume and amount of transactions, and encourages at least weekly deposits. We noted for our sample of three months during the audit period (November 2012, September 2013, and April 2014), deposits were made at the bank once a month.</p> <p>The Airport documents the check date instead of the date received and therefore, we were unable to test the number of days between date received and date deposited. However, per discussion with the Airport Manager, funds are typically received between the 1st and the 5th of the month for hangar lease payments, and by the 10th for tie-down payments. The payments received in that first week of the month are held for approximately one week until the remaining payments are received.</p> <p>For the three months tested, we noted the following dates for preparation and deposit:</p> <table border="1" data-bbox="1101 1228 1258 1795"> <thead> <tr> <th>Month</th> <th>Prepared Date</th> <th>Deposit Date</th> </tr> </thead> <tbody> <tr> <td>November 2012</td> <td>11/09/2012</td> <td>11/15/2012</td> </tr> <tr> <td>September 2013</td> <td>09/11/2013</td> <td>09/17/2013</td> </tr> <tr> <td>April 2014</td> <td>04/13/2014</td> <td>04/16/2014</td> </tr> </tbody> </table> <p>Infrequent deposits unnecessarily expose cash and checks to the possibility of loss or theft.</p>	Month	Prepared Date	Deposit Date	November 2012	11/09/2012	11/15/2012	September 2013	09/11/2013	09/17/2013	April 2014	04/13/2014	04/16/2014	<p>We recommend that deposits be made on a more frequent basis. Best practice is that funds are deposited as often as practicable and not later than 5 business days after receipt. Airport management stated that Fridays are the best day for trips to the bank. At a minimum, the Airport should consider bi-monthly deposits.</p> <p>In conjunction with the recommendations at observation #3, the Airport should also consider updating the hangar lease and tie-down permit templates to align the payment due dates, which would put make all hangar lease and tie-down payments due during the first week of the month, and can be deposited sooner.</p> <p>The airport should also consider the use of a lockbox, as noted in the recommendation for observation #1, or having payments sent to County Finance for deposit. The Airport Manager is hesitant to require mail-in payments to a non-airport location, because many of the walk-in payments are made on the late payment due date, and late fees would be assessed, per the agreements, if not received by then. The enforcement and collection of late fee payments would be cumbersome for the current staff of 2.5 FTE to bear.</p>	<p>Response: We concur with the recommendations, as we will plan to make weekly deposits if there are funds received.</p> <p>All leases are currently under review by staff and legal to implement same due dates. That should facilitate receiving all funds during the first week of the month.</p> <p>We do not believe the use of the lockbox is feasible at this time, due to the number of walk-in payments that are received.</p> <p>Responsible Party: Stephen Borowski, Airport Mgr.</p> <p>Estimated Completion Date: September 30, 2014</p>
Month	Prepared Date	Deposit Date													
November 2012	11/09/2012	11/15/2012													
September 2013	09/11/2013	09/17/2013													
April 2014	04/13/2014	04/16/2014													

Observations Matrix - continued

Risk	Observation	Recommended Action	Management's Response
Moderate	<p>3. Hangar Lease and Tie-Down Permit Agreements</p> <p>We noted the following during our testing of hangar and tie-down revenue and insurance documentation:</p> <ul style="list-style-type: none"> No tie-down permit agreement was on file for one tie-down customer. Older hangar leases and tie-down agreements have lower levels of required insurance coverage, and the amounts of coverage currently have not been updated and are not consistent. The current format of hangar leases and tie-down permit agreements have different payment due dates. Payments for tie-down permits are due by the 10th of the month, while hangar lease payments are due by the 5th of the month. This causes additional administrative burden in tracking and monitoring two different due dates, as well as delays deposits and revenue reconciliation, as noted in observation #2. A current insurance certificate was not received for two of the hangars tested. There were an additional 4 hangars whose certificates were not available at the time of the audit site visit and copies were provided after the site visit. A current insurance certificate was not received for one of the tie-down customers tested. There were an additional 4 tie-down customers whose certificates were not available at the time of the audit site visit and copies were provided after the site visit. <p>Failure to obtain current agreements and updated insurance coverages increases risk related to outdated terms and conditions that are not sufficient to protect the County's current interests.</p>	<p>We recommend the airport perform a review of all active lease agreements and tie-down permits to verify that they include the desired terms and conditions present in the most updated form, including required insurance coverage. Updated hangar leases, tie-down permit agreements and insurance certificates should be obtained where needed.</p> <p>We also recommend that the Airport consider updating the hangar lease and tie-down permit templates to standardize the due dates for payments under the various revenue streams to reduce administrative burden in tracking and monitoring two different due dates.</p> <p>The County attorney's office should be consulted before any contract terms and conditions are revised.</p> <p>Going forward, the Airport should implement a tickler system to remind them of insurance policy expiration dates so that they can monitor that copies of the renewal or replacement policies are obtained from tenants on a timely basis.</p>	<p>Response: We concur with the recommendations. All leases are currently being reviewed by staff and legal, and insurance coverages will be updated as applicable.</p> <p>Responsible Party: Stephen Borowski, Airport Manager</p> <p>Estimated Completion Date: July 31, 2014</p>

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