

COUNTY AUDIT DEPARTMENT

REPORT # 349

An Audit of:

INDIGENT HEALTH CARE SURTAX TRUST FUND FY2016-2017

JUNE 20, 2018



Pat Frank INTEGRITY. TRANSPARENCY. ACCOUNTABILITY.

CLERK OF COURT & COMPTROLLER • HILLSBOROUGH COUNTY, FLORIDA



June 20, 2018

The Honorable Sandra L. Murman, Chairman
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Pat Kemp
The Honorable Lesley "Les" Miller, Jr.
The Honorable Stacy R. White

Dear Chairman Murman and Commissioners:

The Audit Team performed an audit of the Indigent Health Care Surtax Trust Fund FY 2016-2017 (Audit Report # 349, dated June 20, 2018). Responses to the Audit Team's recommendations were received from the Director of Health Care Services and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team 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 and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Health Care Services during this audit.

Sincerely,

Heidi Pinner, CIA, CISA, CFE, CRMA
Director of County Audit

CC: Hillsborough County Legislative Delegation (13)
Mike Merrill, County Administrator
Carl Harness, Chief Human Services Administrator
Gene Earley, Director, Health Care Services
Kevin Brickey, Management & Budget Office
Dan Klein, Chief of Staff
Rick VanArsdall, Chief Deputy, Clerk to the Board

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

In 1991, Hillsborough County enacted a half-cent sales surtax to fund the County's Health Care Plan for indigent residents. The Surtax remains the property of the State. It is distributed by the Department of Revenue on a regular and periodic basis to the Clerk of the Circuit Court. The fund established by the Clerk is called the State of Florida Health Care Surtax Trust Fund. The Fund is controlled by the Clerk's County Finance Department. The Clerk is the ex officio custodian of the surtax for Hillsborough County. The Clerk is responsible for maintaining the surtax revenue in a trust fund, investing the money, and disbursing the money to the Health Care Plan based upon the County's directives. Disbursements from the Fund are based on expenditures in the County's Indigent Health Care Services Fund - the Health Care Plan.

In 2001, the County enacted and implemented a hospital lien law. As a result, \$3.5 million is paid annually to Tampa General Hospital in recognition for being the County's Level 1 trauma center.

In 2003, the Legislature of the State of Florida enacted a requirement that the Clerk prepare, on a biennial basis, an audit of the State of Florida Health Care Surtax Trust Fund commencing February 1, 2004. The audit is to be delivered to the Board of County Commissioners and the chair of the Hillsborough County Legislative Delegation.

Appendix A to this report illustrates the Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balances for fiscal years ended September 30, 2016 and 2017.

OBJECTIVES

The primary objective of the audit was to review and evaluate the effectiveness of management's system of internal control related to the Surtax Trust Fund. Specifically, the County Audit Department determined whether or not:

- The Indigent Health Care Surtax Trust Fund revenue recorded in the County's general ledger agreed with the Department of Revenue's public payment reports and the County's corresponding bank statements.
- The Hillsborough County Indigent Health Care Surtax Trust Fund receives tax revenue amounts from the State of Florida that are similar to the amounts received from the Community Investment Tax (CIT).
- Funds from the Indigent Health Care Surtax Trust Fund were used to reimburse the expenditures for the County's Indigent Health Care Services (operations) Fund.
- The expenditures from the County's Indigent Health Care (operations) Fund appeared appropriate for the objective of providing healthcare services to indigent citizens of Hillsborough County.
- Hillsborough County is in compliance with Florida Statute 212.055(4)(a)5.c. that requires the County to pay either \$6.5 million to a Level I trauma center or to pay only \$3.5 million if the County enacts a hospital lien law.

SCOPE

The audit was conducted in conformance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The audit period covered the fiscal years ended September 30, 2016, and 2017. Audit procedures consisted primarily of confirmations of surtax revenue with the State, an analysis of account fluctuations, a limited review of reasonableness of expenditures, a review of County Ordinances, and inquiries of management.

Hillsborough County's independent external certified public accountants (Cherry Bekaert LLP) audited the County's annual financial statements. Cherry Bekaert did not identify any material concerns related to the Surtax Trust Fund of Hillsborough County during fiscal years 2016 and 2017.

OVERALL EVALUATION

The employees of Health Care Services were responsive to the Audit Team's inquiries and provided the information requested in a timely and courteous manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit. The Surtax Trust Fund's fiscal year-end fund balance for 2016 and 2017 was \$103.3 million and \$137.9 million, respectively.

The following table summarizes the audit comments and corresponding cross references to the page number where the audit comment details can be found in this Report.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Indigent Health Care Surtax revenues received by Hillsborough County are accurately recorded in the general ledger.	4
2	The Indigent Health Care Surtax revenue amounts are similar to the amounts received from the Community Investment Tax (CIT).	5
3	Expenditures in the County's Indigent Health Care Services (operations) Fund were reimbursed by the Indigent Health Care Surtax Trust Fund.	7
4	Expenditures from the County's Indigent Health Care Services (operations) Fund appear appropriate.	8
5	Hillsborough County has complied with the requirement to provide an annual payment of \$3.5 million to a Level I trauma center.	10

OPINION

The control environment relative to the management of the Indigent Healthcare Surtax Trust Fund is at a formal (defined) maturity level. Health Care Services management has established mechanisms to ensure compliance with Florida Statute 212.055.

The exit conference was held on May 21, 2018.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Heidi Pinner, CIA, CISA, CFE, CRMA, Director of County Audit

Ben Everett, CPA, CIA, CFE, Audit Manager

Terrell Alston, Internal Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Indigent Health Care Surtax revenues received by Hillsborough County are accurately recorded in the general ledger.

The objective was to determine whether or not the Indigent Health Care Surtax Trust Fund revenue recorded in the County's general ledger agreed with the Department of Revenue's public payment reports and the County's corresponding bank statements.

Background

Businesses in Florida must remit a 6.0 % sales tax to the State of Florida. Each individual county may elect to add its own additional discretionary taxes above the 6.0 % known as surtaxes. The 7.0 % total sales tax in Hillsborough County is composed of:

- 0.5 % Community Investment Tax (CIT);
- 0.5 % Indigent Healthcare/Trauma Center Tax; and
- 6.0 % state sales tax.

Both 0.5 % taxes are discretionary surtaxes specific to Hillsborough County. There is also a Local Government 1/2 Cent Sales Tax revenue that the County receives from the State of Florida that is not discretionary and is a part of the 6.0 % state sales tax. Each month and each quarter, the State of Florida pays Hillsborough County the Indigent Healthcare/Trauma Center Tax proceeds which the County records into the general ledger in Oracle. These payments show up as an ACH deposit in a County-owned bank account. The payments are also publicly viewable on a state government website called Florida Accounting Information Resource (FLAIR).

Test Procedure

The audit team reviewed the monthly and quarterly payments on FLAIR and compared the amounts to what was posted in Oracle and what is showing on the bank statements. This comparison was performed for the Fiscal years 2016 and 2017, ended September 30, 2016 and September 30, 2017, respectively.

Results

For each month and quarter tested, the Audit Team found no discrepancies in the dollar amounts. The revenues received from the State of Florida were accurately recorded.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

AUDIT COMMENT 2**The Indigent Health Care Surtax revenue amounts are similar to the amounts received from the Community Investment Tax (CIT).**

The objective was to determine whether or not the Hillsborough County Indigent Health Care Surtax Trust Fund receives tax revenue amounts from the State of Florida that are similar to the amounts received from the Community Investment Tax (CIT).

Background

Each month and each quarter, the State of Florida makes three separate payments to Hillsborough County for three taxes:

- the Indigent Healthcare Surtax;
- the Community Investment Tax (CIT); and
- the Local Government 1/2 Cent Sales Tax (has no quarterly payments).

The payments are each a portion of the 7% sales tax that businesses in Hillsborough County charge customers on taxable goods and services. The payments received from the State for the Indigent Healthcare and CIT taxes are traditionally close in amount each month. The Local Government 1/2 Cent Sales Tax is usually a different amount. Any significant difference in the payment amount received by the County for the Indigent Healthcare Surtax as compared to the CIT could indicate an improper payment amount was received from the State.

Test Procedure

The Audit Team:

- Reviewed the County's monthly and quarterly journal entry postings to the general ledger for the Indigent Healthcare and CIT tax revenues in the fiscal years 2016 and 2017;
- Performed a comparison of the dollar amounts for each month and quarter to identify any material differences between the Indigent Healthcare Surtax revenues and the CIT revenues received; and
- Inquired with the State of Florida, Department of Revenue to identify the cause of any discrepancies found.

Results

- For the 32 pairs of journal entries reviewed (12 months and 4 quarters for both fiscal years), 31 had no material differences.
- For the month of February, 2016, the amount of the Indigent Healthcare Surtax paid to the County was \$88,273 more than the CIT payment. No other material differences were identified based on the comparison.

- The Audit Team inquired with the Department of Revenue who confirmed that the amounts paid were the correct amounts. However, the Department of Revenue would not disclose the reason for the difference in the amounts, citing confidentiality.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

AUDIT COMMENT 3**Expenditures in the County's Indigent Health Care Services (operations) Fund were reimbursed by the Indigent Health Care Surtax Trust Fund.**

The objective was to determine whether or not funds from the Indigent Health Care Surtax Trust Fund were used to reimburse the expenditures for the County's Indigent Health Care Services (operations) Fund.

Background

There are two funds in the County's Oracle general ledger system that are used to record transactions for the County's Indigent Healthcare Surtax program: the Indigent Health Care Surtax Trust Fund and the Indigent Health Care Services (operations) Fund. The operations fund is for recording expenditures for healthcare related costs in the program. The Trust Fund is used for recording tax revenues received by the County. The operations fund needs occasional replenishing from the Trust Fund to cover the expenditures being recorded. Periodic journal entries are posted to move funds from the Trust Fund into the operations fund as a reimbursement.

Test Procedure

The Audit Team compared the totals of all the transactions in both funds for the fiscal years 2016 and 2017. The totals were compared to verify that the amount coming out of the Trust Fund was equal to the amount going into the operations fund as a replenishment.

Results

Funds from the Indigent Health Care Surtax Trust Fund were used to reimburse the expenditures for the County's Indigent Health Care Services (operations) Fund. Funding amounts being moved out of the Trust Fund were recorded as an expenditure in the Trust Fund and as a revenue into the operations fund.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

AUDIT COMMENT 4**Expenditures from the County's Indigent Health Care Services (operations) Fund appear appropriate.**

The objective was to determine whether or not the expenditures from the County's Indigent Health Care Operations Fund appeared appropriate for the objective of providing healthcare services to indigent citizens of Hillsborough County.

Background

The Indigent Health Care program is administered by the Hillsborough County Health Care Services Department. Funds from the Indigent Health Care Surtax are used by Health Care Services to pay for medical expenses of indigent citizens of Hillsborough County who qualify for the program. The funds are also used to cover administrative expenses of the program.

Florida State Statute 212.055 has broad language regarding what the Indigent Healthcare Surtax funds may be spent on. The statute includes the statement that the plan "...shall fund a broad range of health care services for both indigent persons and the medically poor..." and "...it shall include, without limitation, services rendered by physicians, clinics, community hospitals, mental health centers, and alternative delivery sites, as well as at least one regional referral hospital where appropriate."

Test Procedure

The Audit Team identified all expenditures and journal entries (the population) that were recorded in the operations fund for the fiscal years 2016 and 2017. From this population, the Audit Team judgmentally selected a sample of expenditures for further review based on:

- Vendors that have unusual-looking business names with respect to providing healthcare;
- High transaction dollar amounts;
- High total annual expenditures with the same vendor; and
- Journal entries over \$100,000.

For each of the transactions in the sample, the Audit Team reviewed backup documents such as vendor invoices and journal entry approval memos/e-mails for appropriateness. The Audit Team made inquiries with Hillsborough County Health Care Services to obtain additional clarification or justification for expenditures, as needed.

Results

The Audit Team used the requirements in Florida State Statute 212.055(4)(a)5.c to determine whether the sample of expenditures and journal entries reviewed were appropriate. Based on this criteria, the Audit Team found no inappropriate expenditures.

During this review, the Audit Team did observe 9 invoices which contained un-redacted personal information. These invoices were submitted by Health Care Services to the Clerk's Accounts Payable function. Traditionally, the Health Care Services redacts all personal information prior to submitting them for payment. While these 9 invoices had some information redacted, further redactions were still needed for information including names, addresses, dates of birth, and Social Security Numbers.

RECOMMENDATION

Management should ensure proper redactions are made before invoices are submitted to Accounts Payable for payment.

Management should also ensure, in conjunction with Accounts Payable, that the 9 invoices observed and all other prior invoices are redacted in the Accounts Payable records to mitigate the risk of unintentional disclosure.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Under an agreement with the Clerk of Circuit Court's County Finance, Accounts Payable Department (Accounts Payable), Health Care Services will no longer submit detailed invoices, but will have those available should they be needed or requested. This practice will eliminate the need to redact future invoices. Additionally, Accounts Payable has agreed to review and redact the invoices observed as well as previous invoices.

TARGET COMPLETION DATE

June 30, 2018

AUDIT COMMENT 5**Hillsborough County has complied with the requirement to provide an annual payment of \$3.5 million to a Level I trauma center.**

The objective was to determine whether or not Hillsborough County is in compliance with Florida Statute 212.055(4)(a)5.c. that requires the County to pay either \$6.5 million to a Level I trauma center or to pay only \$3.5 million if the County enacts a hospital lien law.

Background

The Hillsborough County Board of County Commissioners (BOCC) adopted a hospital lien law via Hillsborough County Ordinance 01-24 on September 5, 2001. The ordinance allows hospitals in Hillsborough County to make a claim against lawsuits, settlements, or insurance claims to ensure the hospital is paid for providing treatment to a patient. Passing a hospital lien law allows Hillsborough County to pay \$3.5 million to a Level I trauma center instead of \$6.5 million, per Florida Statute 212.055(4)(a)5.c.

Test Procedure

The Audit Team verified with the BOCC Records Department of the Hillsborough County Clerk of the Circuit Court that Ordinance 01-24 is still in effect and has had no amendments. The Audit Team then reviewed the general ledger entries and backup documentation to determine whether or not the County made a payment of \$3.5 million to a Level I trauma center in both fiscal year 2016 and 2017.

Results

The Audit Team found journal entries, bank statements, and wire transfer documents showing that the County made \$3.5 million in payments in each fiscal year to Tampa General Hospital. The Audit Team also confirmed that Tampa General Hospital is a Level I trauma center via a statewide trauma center listing on the Florida Department of Health website. Therefore, the County is in compliance with Florida Statute 212.055(4)(a)5.c. for fiscal years 2016 and 2017.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

APPENDIX A

**State of Florida Health Care Surtax Trust Fund
Balance Sheets
September 30, 2016 and 2017**

	<u>2016</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash equity	\$ 83,098,530	117,197,768
Due from other governmental units	20,158,049	20,669,331
Total assets	<u>103,256,579</u>	<u>137,867,100</u>
FUND BALANCES		
Restricted for:		
Hillsborough Healthcare	103,256,579	137,867,100
Total fund balance	<u>\$ 103,256,579</u>	<u>137,867,100</u>

**Statements of Revenues, Expenditures, and Changes in Fund Balances
For Fiscal Years Ended September 30, 2016 and 2017**

	<u>2016</u>	<u>2017</u>
Revenues		
Taxes - discretionary sales surtaxes	\$ 120,161,583	124,377,424
Interest	1,065,847	1,346,411
Total revenues	<u>121,227,430</u>	<u>125,723,835</u>
Other financing sources (uses):		
Transfers out	(110,619,161)	(91,113,314)
Total other financing sources (uses)	<u>(110,619,161)</u>	<u>(91,113,314)</u>
Net change in fund balance	10,608,269	34,610,521
Fund balance, beginning of year	92,648,310	103,256,579
Fund balance, end of year	<u>\$ 103,256,579</u>	<u>137,867,100</u>

Some dollar figures may have a \$1 rounding error.