



FLORIDA DEPARTMENT OF HEALTH
OFFICE OF INSPECTOR GENERAL

THE DEPARTMENT OF HEALTH'S USE OF
*STATEMENT ON STANDARDS FOR ATTESTATION
ENGAGEMENTS NO. 18* REPORTS

Report # R-1718DOH-011 • May 15, 2018

Purpose of this project:

Review the Department of Health's (Department) use of *Statement on Standards for Attestation Engagements No. 18* (SSAE) reports.

What we examined:

The Department contracts with certain vendors for services the Department does not itself have the infrastructure to perform. Some common services include handling payment transactions, processing applications for identification cards or licenses, and processing and payment of claims when prescriptions are filled, all typically confidential. This type of vendor is considered a service organization (SO). SOs may use additional vendors to assist performing a portion of the process, such as cloud hosting. These additional vendors would be considered subservice organizations (sub SOs).

We reviewed a sample of current Department contracts to identify providers that function as a SO to the Department. Where the provider is considered a SO, we looked to identify whether contract language required periodic SSAE reports from the provider. Where a contract required such reports, we verified whether the reports were received and reviewed. **Exhibit 1** describes SO contracts we reviewed.

Summary of Results:

The Department has a well-designed tool to guide its contract managers in differentiating between a vendor or a recipient related to the Single Audit Act when preparing a contract with a provider. However, the Department did not have a similar tool to assist contract managers in identifying when a provider functions as a SO. A requirement for SSAE No. 18 reports was not always included in the contract, and when required, reports were not always received and reviewed.

Additional details follow below. Management's response is in **Appendix A**.

BACKGROUND

It is important for the Department to have a level of assurance SOs and sub SOs have identified their risks, and implemented and maintain sufficient controls over their processes to appropriately handle and protect the Department's cash, data, information, and other interests. These types of assurances would not be examined during a financial statement audit. In 2017 the American Institute of Certified Public Accountants published a new standard for how auditors would examine and report on these types of controls in SSAE No. 18. Forerunner standards included the Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, introduced in 1992 and more recently the SSAE No. 16, *Reporting on Controls at a Service Organization*, introduced in 2011.

Under the umbrella of a SSAE No. 18 attestation, there are different forms of reporting available. These include a Service Organization Controls (SOC) 1 report and a SOC 2 report. The

Department as the user entity, and depending on the need, would require only one of these periodic reports from each SO. Each type of report provides relevant information.

- SOC 1 addresses internal controls over financial reporting and is applicable when the SO processes transactions or supports transaction processing systems.
- SOC 2 focuses on operational controls of the SO relevant to security, availability, processing integrity, and privacy/confidentiality and may apply to systems beyond those that are related to financial reporting.

Also, within each SOC report there are two types of report categories:

- A Type 1 reports on the design of a system at a point in time.
- A Type 2 reports on the design and operating effectiveness over a period of time.

As an example, and depending on the type of service the SO provides, it may be appropriate the Department requires a SOC 1, Type 2 report each year. The auditor would examine the SO's operating effectiveness over internal controls over financial reporting over a 12-month period, rather than as of a given date.

There is a similar SOC that separately examines and reports on a SO's cybersecurity risk management program. Cybersecurity threats continue to increase and challenge all organizations. Requiring certain providers to obtain this type of examination would furnish the Department a level of assurance the provider has adequately identified and addressed its risk and exposure to such threats.

The Department's contract managers have a duty to monitor these SOs. An important monitoring tool would be a requirement for the SO to obtain a SSAE No. 18 attestation and provide their report to the contract manager who would analyze the results.

The Department currently requires these types of attestations from some of its SOs. One such report is an annual SOC 1, Type 2 report from Image API, LLC. The Department receives and reviews a report that identifies the company's description of internal controls over compliance with the terms of the contract, the suitability of the design and operating effectiveness of controls. The controls identified in the report are those the company believes are likely to be relevant to the Department. The auditor's tests include processing of applications, printing licenses, physical security, environmental security, information security, computer operations, and applications development.

The Office of the Auditor General has increasingly included audit recommendations across agencies related to the need to obtain and review SSAE No. 18 reports.

During this project, we partnered with the Department's Office of Contracts to gain an understanding of management's current requirements and expectations for SSAE No. 18 reports from its SOs, tools to help a contract manager identify when a provider is a SO, and any processes used to collect and analyze the information gained from these reports.

We understand implementing such a process takes time and may have to be accomplished in increments. The process of implementation requires training and education. However, the benefit of improving the process of identifying SOs, requiring SSAE No. 18 reports, and most important, reviewing the reports to know a SO has controls in place to protect the Department's interests is necessary.

DETAILED RESULTS AND RECOMMENDATIONS

Our review identified the following opportunities for improving effectiveness and efficiencies in operations:

1. The Department has an opportunity to obtain a level of assurance its SOs and sub SOs have controls in place that protect the Department.

- The Department did not have a tool (e.g., a checklist, presentation) to assist a contract manager identify a provider as a SO, as all providers are not SOs.
- Five of eight contracts reviewed, where the provider met the definition of a SO, did not include a requirement to obtain and provide to the Department a SSAE No. 18 report.
- The Department did not have an enterprise-wide process to review SSAE No. 18 reports and act on reported issues, should there be any.
- The Department did not maintain a list of the population of contracted providers that function as a SO.

We recommend the Office of Contracts develop a tool that would assist a contract manager identify when a provider is a SO, so language can be included in the contract to require a SSAE No. 18 report, including the appropriate type.

We recommend the Office of Contracts develop a process to ensure SSAE No. 18 reports are reviewed and act on any deficiencies identified in the report. Over time, this process could be an integrated, enterprise-wide process.

We recommend the Office of Contracts compile and maintain a list of its providers that function as a SO. Such a list would assist Department staff to know the population and types of services being performed by contracted providers.

2. The Department did not receive and review all required SSAE No. 16 reports.

As SSAE No. 18 was effective for report dates on or after May 1, 2017, some Department contracts appropriately referred to and required SSAE No. 16 reports.

However:

- SSAE No. 16 reports were not timely received and reviewed for two contracts requiring an annual report.
- The contract for one SO included language requiring an attestation, but still referred to it as a SAS No. 70 report. SAS No. 70 was superseded in 2011.
- Contracts requiring a SSAE No. 16 report did not include financial consequences should control deficiencies be identified in the report.

We recommend the Office of Contracts provide training for contract managers to ensure timely submission and review of the SSAE No. 18 reports, and how to address any findings from the reports with the SO.

We recommend the Office of Contracts develop language to be included in SO contracts that would provide for financial consequences when SSAE No. 18 reports are not submitted timely.

SUPPLEMENTAL INFORMATION

Section 20.055, *Florida Statutes*, charges the Department's Office of Inspector General with responsibility to provide a central point for coordination of activities that promote accountability, integrity, and efficiency in government.

William T. Bull, Senior Management Analyst II, conducted the review under the supervision of Mark H. Boehmer, CPA, Director of Auditing.

Our methodology included reviewing SSAE No. 18; samples of contracts with providers believed to be SOs; and interviews with management, staff, and contract managers.

This project was not an audit, as industry-established auditing standards were not applied. Internal Audit Unit procedures for the performance of reviews were followed and used during this project.

We want to thank management and staff in the Department's Office of Contracts and the participating contract managers for the information and documentation provided, and for their cooperation throughout the project.

Copies of all final reports are available on our website at www.floridahealth.gov (search: internal audit). If you have questions or comments, please contact us by the following means:

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EXHIBIT 1

Service Organization Contracts Reviewed

SO	Contract Number	Description of Services
Veritec Solutions, LLC	COZAA	SO provides registry identification cards for medical marijuana users or caregivers, processing of applications, and operation of a call center for questions related to Medical Marijuana use.
UPP Technology, Inc.	COPW1	SO provides the Bureau of Preparedness and Response with enhancements to the Inventory Management System to align with logistical functions and fiscal accountability.
Med3000 Health Solutions Southeast	COQYG	SO provides third party administrative services, processes and pays claims submitted by health care providers for services provided to CMS Managed Care Plan recipients.
MLI Integrated Graphics Solutions	COMW6	SO provides support services related to the Department's licensing of medical professionals, including designing and generating renewal notification formats; printing services; mailing services; document conversion and indexing services; data conversion services; profession project management; programming and technical support services.
Image API, LLC	COMX5	SO provides support services related to the Department's licensing of and revenue transactions with health care professionals.
ISF, Inc.	COPAG	SO provides hosting, management, maintenance, and enhancement services for the Florida Health Alert Network and Florida Health Status Tracking & Availability Tool systems.
MedImpact Healthcare Systems	COQRZ	SO processes for the CMS Managed Care Plan pharmacy claims received from participating pharmacies.
Caremark PCS Health (CVS Health)	CODMA	SO provides pharmacy benefits management services to AIDS Drug Assistance Program clients.

APPENDIX A: MANAGEMENT RESPONSE

	Recommendation	Management Response
1.1	<p><i>We recommend the Office of Contracts develop a tool that would assist a contract manager identify when a provider is a SO, so language can be included in the contract to require a SSAE No. 18 report, including the appropriate type.</i></p>	<p>We concur.</p> <p>The Office of Contracts will develop a worksheet to assist contract managers determine if a SO relationship exists for the contractual service and type of SSAE No.18 reporting required. Additionally, the Office of Contracts will update the <i>Contract Drafting Worksheet</i> and <i>Contract Review Checklist</i> to include a requirement to identify when provider is a SO and type of SSAE No. 18 reported required for the contract.</p> <p>Contact: Antonio Dawkins <i>Anticipated Completion Date:</i> August 31, 2018</p>
1.2	<p><i>We recommend the Office of Contracts develop a process to ensure SSAE No. 18 reports are reviewed and act on any deficiencies identified in the report. Over time, this process could be an integrated, enterprise-wide process.</i></p>	<p>We concur.</p> <p>The Office of Contracts will work with stakeholders to develop a process for collecting and reviewing SSAE No. 18 reports, addressing deficiencies, and maintaining all related documentation.</p> <p>Contact: Antonio Dawkins <i>Anticipated Completion Date:</i> August 31, 2018</p>
1.3	<p><i>We recommend the Office of Contracts compile and maintain a list of its providers that function as a SO. Such a list would assist Department staff to know the population and types of services being performed by contracted providers.</i></p>	<p>We concur.</p> <p>The Office of Contracts will add an enhancement to the Contract Review System to identify SOs for reporting purposes. With the information collected from the contract checklists and other sources, the Office of Contracts will classify contracts within the Contract Review System.</p> <p>Contact: Antonio Dawkins <i>Anticipated Completion Date:</i> June 29, 2018</p>
2.1	<p><i>We recommend the Office of Contracts provide training for contract managers to ensure timely submission and review of the SSAE No. 18 reports, and how to address any findings from the report with the SO.</i></p>	<p>We concur.</p> <p>The Office of Contracts will develop a training for contract managers to cover the reporting requirements of SSAE No. 18. The training will seek to provide an understanding of the following: definition of SO as it relates the Department's operations, the requirement for SOs to have a SSAE No. 18 performed, the type of reports provided from the engagement, how to review the report, and how to address deficiencies.</p> <p>Contact: Antonio Dawkins <i>Anticipated Completion Date:</i> September 28, 2018</p>
2.2	<p><i>We recommend the Office of Contracts develop language to be included in SO contracts that would provide for financial consequences when SSAE No. 18 reports are not timely submitted.</i></p>	<p>We concur.</p> <p>The Office of Contracts will work with stakeholders to develop and obtain legal approval of contract language to be used in contracts with SO.</p> <p>Contact: Antonio Dawkins <i>Anticipated Completion Date:</i> June 29, 2018</p>