



**TRI RIVERS JOINT VOCATIONAL SCHOOL DISTRICT  
SELF-INSURANCE PROGRAM**

**SPECIAL AUDIT**

**FOR THE PERIOD  
DECEMBER 1, 1998 THROUGH NOVEMBER 3, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**



## TABLE OF CONTENTS

<b>Title</b>	<b>Page (s)</b>
Schedule of Elective and Administrative Officials	1
Report of Independent Accountants	3-4
Supplement to the Special Audit Report:	
Background Information	5-6
Glossary of Relevant Terms	7
Issue No. 1 Review of Self-insurance Operations	8-11
Issue No. 2 Review of Checks Remitted by District to IEC Benefits Administrators	12-14
Issue No. 3 Review of IEC's Claims Payments to Health Care Providers	15-19
Issue No. 4 Review of IEC's Payments to Third-party Vendors	20-24
General Comments	25
Schedule of Findings For Recovery	26

**This Page Left Blank Intentionally**

**SCHEDULE OF ELECTED AND ADMINISTRATIVE OFFICIALS**

**TRI RIVERS JOINT VOCATIONAL SCHOOL DISTRICT**

<b><u>BOARD OF EDUCATION</u></b>	<b><u>TERMS</u></b>	<b><u>BOND</u></b>
Ms. Sheryl Rhoades	01/01/97-12/31/00	\$20,000 <sup>(1)</sup>
Mr. Gene Wiley	01/01/97-12/31/00	N/A
Mr. Gary Ebert	01/01/98-12/31/01	N/A
Mr. Dan Erwin	01/01/99-12/31/02	N/A
Mr. Bob Gherman	01/01/97-12/31/00	N/A
Mr. Mick Landon	01/01/98-12/31/01	N/A
Ms. Kay Mayse-Snyder	01/01/98-12/31/01	N/A
Ms. Pam Moery	01/01/97-12/31/00	N/A
Mr. Keith Rogers	01/01/97-12/31/00	N/A
Ms. Judy Ruhl	01/01/97-12/31/00	N/A
Mr. Tom Tomlin	01/01/98-12/31/01	N/A
Mr. John Walker	01/01/98-12/31/01	N/A
Mr. Clif Wenig	01/01/98-12/31/01	N/A

**OTHER PERSONNEL**

James R. Craycraft, Superintendent	\$20,000 (1)
Terril Martin, Treasurer	\$40,000 (1)

(1) Hicksons Insurance Company

**This Page Left Intentionally Blank**



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490  
www.auditor.state.oh.us

### Report of Independent Accountants

Mr. James Craycraft, Superintendent,  
Ms. Terril Martin, Treasurer, and  
Members of the Board of Education  
Tri Rivers Joint Vocational School District  
2222 Marion-Mt. Gilead Road  
Marion, Ohio 43302-8913

Pursuant to your request dated November 3, 1999, we have conducted a "Special Audit" and performed the procedures summarized below and detailed in our "Supplement to the Special Audit Report," which were agreed to by you for the period December 1, 1998 through November 3, 1999 ("the Period"). These procedures were performed solely to determine: a) the procedures followed by both Tri Rivers Joint Vocational School District (the "District") and its third-party administrator when processing, funding, and paying claims through the District's self-insurance program; b) whether the checks issued to its third-party administrator were expended for the specific purpose indicated on the check; c) whether all claims represented to have been paid by the District's third-party administrator were actually paid; and d) whether all administrative fees paid by the District to its third-party administrator were accurately forwarded to the appropriate vendors by the third-party administrator. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the users of the report. Consequently, we make no representation regarding the sufficiency of the procedures discussed below for the purpose for which this report has been requested or for any other purpose. The procedures we performed are summarized as follows:

1. We interviewed the District's Payroll Clerk and the President of IEC Benefits Administrators (IEC), the District's third-party administrator, to determine the procedures followed when: a) IEC processed claims received from health care providers; b) IEC notified the District of the amount of claims to be paid; c) the District remitted payment to IEC to fund the claims to be paid; and d) IEC deposited the monies received by the District and subsequently issued checks to pay the claims.
2. We obtained all checks issued by the District to IEC during the Period for administrative fees and all the checks issued to IEC during the Period to fund claims. We traced each check to IEC's bank accounts to determine that checks issued for administrative fees were deposited into IEC's Administrative bank account and checks issued for the payment of claims were deposited into IEC's Escrow bank accounts. We also reviewed all activity within the IEC Administrative and Escrow bank accounts to determine that administrative monies were expended for administrative purposes and escrow monies were expended for payments to health care providers and third party vendors.
3. We reviewed copies of "Explanation of Benefits Statements" ("EOBs") remitted to the District by IEC during the Period and compared the check number, check date, claim number, health care provider, and payment amount indicated on the "Statements" to the related canceled checks to determine if the claims were accurately paid by IEC on the District's behalf.
4. We reviewed the administrative fees paid to IEC and the usage of those fees by IEC and determined whether or not the reinsurer and other parties related to the claims processing activity were paid by IEC during the Period for services provided to the District.

5. On April 28, 2000, we held an exit conference with the following elected officials and administrative personnel of the District:

Mr. R. Gene Wiley, Board President  
Ms. Judy Ruhl, Board Member  
Mr. James R. Craycraft, Superintendent  
Ms. Terrill Martin, Treasurer  
Ms. Judy Weaver, Payroll Clerk  
Ms. Becky Evans, Assistant Payroll Clerk

The attendees were given an opportunity to respond to this Special Audit. No written responses were received.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report." Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on the District's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the District taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

Jim Petro  
Auditor of State

April 5, 2000

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## BACKGROUND

In a letter to our Office dated November 3, 1999, Mr. Jim Craycraft, Superintendent of the Tri Rivers Joint Vocational School District (“the District”) requested a special audit of the District’s self-insurance program third-party administrator, IEC Benefits Administrators (“IEC”). According to Mr. Craycraft the District had recently been notified by several health care providers (i.e., hospitals and physicians) who indicated that they had not received payment for claims submitted to IEC for employees of the District. According to check registers and “Explanation of Benefits” forms previously prepared by IEC and submitted to the District, the claims had been paid.

On November 19, 1999, Auditor of State representatives met with Superintendent Craycraft, Terril Martin, Treasurer, and Judy Weaver, Payroll Clerk, to discuss the irregularities which precipitated the special audit request and to review documentation supporting the allegations. The following time line of events was provided:

- |                    |   |
|--------------------|---|
| Pre-December, 1998 | The District’s third-party administrator of its self-insurance program was Polaris Benefits Administrators. Mr. Brad Cooper was the Polaris Sales representative for the District. Due to poor service received from Polaris in 1998, the District began to consider changing to another third-party administrator in the fall of 1998. At that time, Mr. Cooper informed the District that he was starting his own company called IEC, specializing in third-party administration of self-insurance programs. The District entered into a contract with IEC, effective December 1, 1998  |
| March 1999         | Ms. Weaver noticed that a sequence of checks included on the check register prepared by IEC were not mailed to health care providers. She contacted Mr. Brad Cooper, President of IEC, regarding the irregularity. Mr. Cooper laid blame on his part-time help and subsequently corrected the problem by reissuing the checks.  |
| June 1999          | The District began to periodically receive complaints from its employees regarding nonpayment notices they were receiving from their health care providers. Each time Ms. Weaver contacted IEC, the error was corrected in a timely manner.   |
| October 18, 1999   | <p>Ms. Weaver received 10 complaints from employees regarding nonpayment of claims. Ms. Weaver began to investigate the irregularities by telephoning the various health care providers to inquire whether payments had been received on the District’s behalf from IEC. She discovered that either the health care providers had not received payment from IEC, or if payment was received, the check had been returned due to non-sufficient funds.<sup>1</sup></p> <p>Ms. Weaver gathered the information she had and informed the Superintendent of the problems.</p> <p>Ms. Weaver performed a comparison between the “Explanation of Benefits” forms to the claims paid per the check register. Upon discussion with various vendors, she noted the vendors had not received payment or had received a check which was returned by the bank for non-sufficient funds.</p> |

---

<sup>1</sup> Those checks that were returned due to non-sufficient funds were subsequently reissued by IEC.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### BACKGROUND (Continued)

- October 22, 1999      The District stopped funding claims processed by IEC Benefit Administrators due to the numerous problems existed.
- October 26, 1999      Mr. Craycraft contacted Larry Babich, Assistant Marion County Prosecutor, the State Auditor's Office, Marion County Sheriff's Department and the Ohio Department of Insurance informing these parties of irregularities with the self-insurance fund.
- November 1999        Ms. Weaver also contacted the District's reinsurer and the prescription plan Third party vendors who both claimed they had not been paid for up to four months.
- The District contracted with Avalon Benefit Services, Inc. to process healthcare related claims including the claims register sent by IEC for October 29, 1999.

Mr. Craycraft's written request, as well as, the additional information obtained during our meeting with District personnel on November 19<sup>th</sup>, was presented to the Auditor of State's Special Audit Committee on November 22, 1999. The Committee voted to initiate a special audit.

On December 22, 1999, the Marion County Grand Jury indicted Mr. Brad Cooper charged with theft. An arraignment was held on December 29, 1999 in which Mr. Cooper pled not guilty to two charges of theft of public monies. The Court appointed an attorney for Mr. Cooper on January 28, 2000. A pre-trial hearing was held on February 18, 2000. On May 4, 2000, Mr. Brad Cooper pled guilty to theft charges.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## GLOSSARY OF RELEVANT TERMS

<b>Self-insurance Fund</b>	This fund on the District's books is utilized to account for health insurance premiums including the employer's share and the employee's share deducted from their paychecks and to remit monies to IEC Benefit Administrators for payment of medical claims received and administrative related expenses.
<b>Third-Party Administrator</b>	The District contracted with IEC Benefits Administrators to manage its Self-insurance program. The duties of IEC included obtaining discounts on the services provided to employees, paying the health care providers who performed the service, and paying outside vendors for additional insurance.
<b>Explanation of Benefits Statement</b>	This statement is sent by the Third Party Administrator to the District and the employee who received treatment. The statement includes the claim number, the service performed, the client's name, the amount paid to the health care provider, the check date, check number, address of the health care provider, and the amount of the check.
<b>Coinsurance</b>	This is the insurance the District purchased to pay for claims made by health care providers for treatments given to an employee which exceeds \$20,000 in one year for that employee.
<b>Coinsurance Carrier</b>	The District contracted with American Insurance Managers to provide insurance coverage to pay claims of an employee whose total claims for one year exceeds \$20,000.
<b>Stop-Loss Coverage</b>	This is the dividing line which determines whether the District or the reinsurance carrier, American Insurance Managers, pays the claim. The District has a stop loss amount of \$20,000 per employee for the year. Therefore, claims totaling under \$20,000 for the year are paid by the District and claims exceeding \$20,000 for the year are paid by American Insurance Managers.
<b>Administrative Costs</b>	These are fees paid by the District to IEC for managing the self-insurance program. These fees include premiums per employee for coinsurance, discount network fees to the claims discounter for reducing the amount of the claims due, and a brokerage fee which consists of an administrative fee for IEC and a fee for COBRA insurance cards.
<b>Discount Network Fees</b>	The District's self-insurance program utilizes a PPO network. As long as the employees utilize the services of a health care provider participating in the PPO network, the claims are discounted. OhioHealth Group provides the discounting and charges IEC a fee for performing this function. This fee is included in the administrative fee billing to the District.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## Issue No. 1 - Review of Self-insurance Operations

We interviewed the District's Payroll Clerk and the President of IEC Benefits Administrators (IEC) to determine the procedures followed when: a) IEC processes claims received by health care providers; b) IEC notifies the District of the amount of claims to be paid; c) the District remits payment to IEC to fund the claims to be paid; and d) IEC deposits the monies received by the District and subsequently issues checks to pay the claims.

### Procedures:

1. We interviewed Judy Weaver, Payroll Clerk, to determine the procedures followed relating to self-insurance claims and expenditures.
2. We reviewed notes taken by Marion County Sheriff's Office Detectives during their interview with Mr. Brad Cooper to determine what happened to the monies remitted to IEC by the District for claims payments and administrative payments.
3. We interviewed Mr. Brad Cooper, President of IEC, to determine the procedures followed for the processing of claims and depositing of District monies.

### Results

1. On December 6, 1999, Ms. Judy Weaver, Payroll Clerk provided the following information relative to District's self-insurance program for the Period:
  - A. IEC was responsible for processing all new medical claims received after December 1, 1998.
  - B. IEC was required to open a bank account, referred to as the "Escrow Account", to separately maintain deposits received from the District for i) funding its employees medical claims which were to be paid to various health care providers; and ii) funding its employees prescription claims which were to be paid to Claimspro.
  - C. In addition to the "Escrow Account", IEC also maintained an "Administrative Account". Within this account, IEC deposited administrative fees received from the District and other IEC clients unrelated to the District. The administrative fees paid to IEC by the District included:
    - i. a monthly per employee charge for utilizing the OhioHealth Group PPO network;
    - ii. coinsurance premiums to American Insurance Managers, which covered claims in excess of \$20,000 per individual; and
    - iii. administrative fees for processing claims charged by IEC in accordance with the contract between the District and IEC.
  - D. Each month the District received a bill for administrative fees from IEC.<sup>2</sup> Upon receipt of the bill, Ms. Weaver reviewed the bill for accuracy ensuring that each employee's coverage was correct. Any changes in enrollment were noted on the bill and were adjusted by IEC the following month. Once Ms. Weaver approved the bill, the Treasurer prepared a check payable to IEC which was charged against a valid purchase order previously opened at the beginning of the month and mailed the bill and check to IEC.

---

<sup>2</sup> With the exception of December 1998, which were based upon on the fees charged by the previous third-party administrator, Polaris Benefits Administrators.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- E. The District remits a check for administrative fees to IEC. A portion of the Administrative fees is to be remitted to American Insurance Managers for the District's coinsurance. IEC maintains 15% of the fee received from the District for managing the program.
  - F. The Administrative fees also include a column marked as PPO/UR Fees. These fees are to be remitted to OhioHealth Group based on invoices received by IEC for the discounting services provided. Any differences in the amount received from the District and the amount billed by OhioHealth Group is retained by IEC.
  - G. The remainder of the administrative fees amount sent to IEC by the District was retained by IEC as brokerage fees and COBRA fees for providing the service. This brokerage fee was based on the contract between IEC and the District for administrative fees.
  - H. Each Friday staff members at IEC would prepare the checks which were to be sent to the various health care providers for payment of District employees' claims, generate a check register listing information relative to each check, and generate an EOB for each claim processed. One of the staff members at IEC would then call Ms. Weaver and state the amount of funds needed from the District to fund the claims. Ms. Weaver would then request the Treasurer send a check in that amount to IEC via overnight delivery service. The Treasurer would charge the expenditure against a purchase order previously opened at the beginning of the month and prepared the check. On the following Monday, Ms. Weaver usually received the EOBs and the check register from IEC. She verified that the total amount of checks on the check register agreed to the amount verbally requested via telephone by IEC. If the amounts did not agree or there were large unexplainable discrepancies, Ms. Weaver would be able to stop payment on the check sent to fund the claims.
  - I. The District maintained a separate file for each employee that included all of the EOBs for that employee, as well as, other relevant correspondence.
  - J. The District maintained a copy of all check registers it received from IEC. We reviewed all of these check registers and the corresponding payments which the District made to IEC and noted that the District had funded all checks issued by IEC numbered from 1000 through 6009.
  - K. The District maintained a copy of all monthly reports it received from IEC. The monthly reports reflected the amounts paid to health care providers by IEC year to date and the amounts still remaining to be paid to the health care provider. The reports also contained information about the categories of claims including contracts, dental, medical, and vision, and stop-loss reports for individuals close to reaching the \$20,000 stop-loss coverage. When an individual's cumulative annual claims covered under the plan for a single year exceeds \$20,000, the District is not liable for the amount in excess of \$20,000 as the American Insurance Managers providing the coinsurance is liable for the payment of those claims.
2. We reviewed the interview between Mr. Brad Cooper and a Marion County Sheriff's Detective which took place on November 22, 1999. Mr. Cooper indicated to the Detective that he had started his own third-party administrator company in November 1998 and the District was one of his two clients. Fairfield Engineering was the other client. Mr. Cooper indicated that beginning in April, 1999 he began to float between his personal accounts and his client accounts in order to pay bills to keep his company operating. He stated his intent was to only float money until more clients were obtained. However, he did not obtain new clients and needed money to pay his bills.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. We interviewed Brad Cooper, President of IEC Benefits Administrators on December 7, 1999 in his office at 50 West Broad Street, Suite 3200, Columbus, Ohio to determine the procedures followed by IEC in processing monies received from the District and the processing of claims made by District employees.
- A. Mr. Cooper indicated he started IEC in October 1998 and entered into a contract with the District on December 1, 1998;
  - B. IEC maintained a total of three bank accounts during the Period of October 1998 through November 3, 1999. The first account was an administrative account in which he deposited checks received from the District and his other client, Fairfield Engineering for his administrative fees and the ancillary costs including coinsurance and discount network fees. He opened an account in January 1999 to maintain the activity related to claims payments for the District separate from his administrative account. He indicated IEC only paid claims for the District as his other client paid their own claims. Mr. Cooper indicated he was responsible for making deposits and writing checks from the Administrative Account and making deposits for the Claims Escrow Account. As the months passed, Mr. Cooper indicated there were problems with the Claims Escrow account for the District's activity so he opened a new account in October of 1999 to process District claims. Upon opening this account, he placed his employee Anna Seitzinger in charge of the account. She was responsible for the deposits to that account and any checks written to that account. He indicated in December of 1999 each of the three accounts were still open with "basically zero balance."
  - C. IEC had two staff members, Anna Seitzinger and Dolly Farahay. Ms. Seitzinger was responsible for the administrative fees, dental claims and billing COBRA payments. Ms. Farahay was responsible for paying medical claims. Both of the individuals had previous experience at other places of employment. These individuals left employment on October 22, 1999 which resulted in Mr. Cooper overtaking any responsibilities they had.
  - D. The District was required to pay its administrative fees at the first of the month . Upon receipt of the check from the District, he would deposit these monies into the Administrative Account. Once the monies were deposited, he would then pay the reinsurance carrier, American Insurance Managers (ABM for the period of December 1, 1998 through June 30, 1999), and the discounter, OhioHealth Group for their related administrative service fees.
  - E. Each week the District would send a check for claims to be paid which was deposited into the escrow account. Upon receipt of the check, the monies were deposited into the account and the claims checks were mailed to the health care providers. In addition, Mr. Cooper indicated the payments due to Claimspro were made from the Claims Escrow account as well. He would pay Claimspro based upon a check register received from Claimspro which indicated which prescriptions needed to be paid.
  - F. Mr. Cooper indicated he would sometimes split a check received from the District between the Administrative Account and the Claims Escrow account. He indicated the purpose of this depended on how many claims were actually processed. As a result, he stated the monies intended for payment of claims would sometimes be used for operating purposes. He indicated he started having financial trouble with his company in April of 1999 and in the following months he was trying to "stay afloat." He indicated that he was floating money between the two accounts to cover his business expenses. It was determined Mr. Cooper deposited a check intended to fund claims into the Administrative Account and later wrote a check to the Claims Escrow account.
  - G. When asked why there were counter checks written out of the Claims Escrow and Administrative Account, Mr. Cooper stated since he did not have access to the checks or did not have any checks with him, he would utilize this method to withdraw monies from one account and deposit it into another.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- H. Mr. Cooper indicated when he started having financial difficulties he would still bill the District but would delay the payment to the health care provider. He indicated he was trying to float money due to he had approximately \$20,000 in bills a month and was receiving \$5,000 a month from his clients. As a result, he was in the “hole about fifteen thousand a month every month.” He indicated he ran out of money in April of 1999. When asked how much he owes the District, he estimated around \$125,000 to \$135,000. He also indicated all of the businesses he worked at prior to starting his own company “floated money nonstop.”

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## Issue No. 2 - Review of Checks Remitted by District to IEC Benefits Administrators

We obtained all checks issued by the District to IEC during the Period for administrative fees and all the checks issued to IEC during the Period to fund claims. We traced each check to IEC's bank accounts to determine that checks issued for administrative fees were deposited into IEC's Administrative bank account and checks issued for the payment of claims were deposited into IEC's Escrow bank accounts. We also reviewed all activity within the IEC Administrative and Escrow bank accounts to determine that administrative monies were expended for administrative purposes and escrow monies were expended for payments to health care providers.

### Procedures

1. We obtained all of the checks issued by the District and created a spreadsheet indicating the check number, check date, the purpose of the check, and the check amount.
2. We traced the checks issued by the District to a deposit into either one of the two escrow accounts or the administrative account maintained by IEC to determine which bank account the check was deposited into.
3. We compared the purpose of the check issued by the District to the IEC account the monies were deposited to determine whether the monies were expended for the purpose intended. (i.e., administrative fees were deposited into the administrative account and expended for administrative purposes and claims payments were deposited into the escrow accounts and used to pay health care providers).
4. We reviewed the escrow and administrative account bank statements and investigated any deposits into the accounts which were not supported by a check from the District to determine the source of the deposit (e.g., transfer from another bank account or a cash deposit).
5. We reviewed the escrow and administrative account bank statements and investigated any withdrawals from the accounts which were not supported by a IEC check to determine the purpose of the withdrawal (e.g., transfer to another bank account or cash withdrawal).
6. We requested the Marion County Prosecutor's office issue a subpoena to National City Bank for documentation to support IEC bank account deposits and withdrawals which Mr. Cooper would not provide to us.
7. We reviewed all canceled checks received from the subpoena which cleared the bank during the months of December 1998, January 1999, and October and November 1999 to determine whether the administrative fees IEC received from the District were being used for purposes other than administrative purposes.

### Results

1. We obtained the bank statements from Mr. Cooper for the period of January 1999 through September 1999. We made numerous attempts to obtain the bank statements and canceled checks from Mr. Cooper for the statements for the period of October 1, 1999 through November 30, 1999 and December 1998. Due to his lack of cooperation, we requested the Marion County Prosecutor to issue a subpoena to National City Bank for those items needed to complete a review of the District's deposits.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. We traced the checks issued by the District to IEC for administrative fees to IEC's Administrative bank account to determine whether all of the monies were accounted for in the Administrative account. We noted the following results:
  - \$17,657 of administrative fees paid to IEC were deposited into the Claims Escrow account, instead of the Administrative account;
  - We were unable to determine the source of \$10,400 of deposits within the Administrative account;
  - \$218,826 of deposits within the Administrative account were from Fairfield Engineering, another client of IEC;
  - \$6,058 of withdrawals made from the Administrative Account were traced to deposits in the Escrow account;
  - We were unable to determine the purpose of \$6,678 of withdrawals made from the Administrative account. These monies were not redeposited into any other IEC bank account; and
  - A total of 267 checks cleared the Administrative account during the months of December 1998, January 1999, and October and November 1999. Of those 267 checks, 111 totaling \$35,550 were made payable to "Cash" by Mr. Cooper. These were either monies belonging to himself, Fairfield Engineering, or the District.
3. We traced the checks issued by the District to IEC to fund claim payments to the IEC's Claims Escrow bank accounts to determine whether those monies for claims were deposited into these accounts. We noted the following results:
  - \$262,090 of checks received by IEC to fund claims for the District were deposited into the Administrative account, instead of the Claims Escrow accounts;
  - \$62,924 of checks written from the Administrative account were deposited into the Claims Escrow account;
  - We were unable to determine the source of \$19,750 of deposits made into the Claims Escrow account established in January 1999.
  - We were unable to determine the source of \$2,192 of deposits made into the Claims Escrow account established in October 1999.
  - One deposit in the amount of \$110 consisted of a refund check from Quest Diagnostics in the amount of \$86 and from Marion General Hospital in the amount \$24 which we were unable to trace to the original claim paid by IEC. Therefore, we are unsure why this refund was received by IEC.
  - \$61,523 of withdrawals made from Claims Escrow account established in January 1999 of which we were unable to trace the redeposit of \$19,094 into another IEC Benefit Administrators bank account. The remaining \$42,429 was deposited into the Administrative account.
  - There were \$900 in withdrawals made from Claims Escrow account established in October 1999 of which we were unable to trace the redeposit of the monies into another IEC Benefit Administrators bank account.
4. On March 16, 1999, \$100 was withdrawn from Administrative Account #394054457 without a check and an additional \$90 was added to the deposit on March 19, 1999. We were unable to determine if this \$90 was part of the original \$100 withdrawn on March 16, 1999.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

5. On April 9, 1999, a Claims Escrow deposit was made which had an additional \$125.64 above what the District check indicates. There was no support available for this amount nor were there any withdrawals within a couple days before this deposit. We did note a check was written by the District to IEC for \$125.62 on July 1, 1999 as a refund to IEC who signed the check over to American Insurance Managers. We were unable to determine if the additional deposit was a refund of District monies from a health care provider.
6. On May 19, 1999, there was \$2500 withdrawn from the Claims Escrow account which was not accounted for. On May 21, 1999, an additional \$211.80 was deposited into the Claims Escrow account. It is possible this \$211.80 was part of the \$2500 withdrawn.

**MANAGEMENT COMMENTS** (also see General Comments Section at the end of the report)

### **Segregated Bank Accounts**

Section 7 of the Administrative Services agreement indicates Tri Rivers Joint Vocational School District will establish and maintain a bank account to be used for paying claims. The agreement also indicates IEC will be an authorized signatory of the account and will use the account to prepare and mail checks for payments of the claims. This would allow the District to review the activity in the claims account to ensure only the District's claims were being paid from the account. In addition, the agreement indicates the funds handled by IEC on behalf of the District would be held by IEC in a fiduciary capacity. However, IEC Benefit Administrators established the bank account and acted as the only signatory on the bank account. The District then remitted checks to IEC for payment of claims. As a result, the District was not able to monitor the activity in the segregated account. This lack of monitoring allowed Mr. Brad Cooper, President of IEC Benefit Administrators to transfer and withdraw monies from the segregated Escrow Claims account without the knowledge of the District.

We recommend in the future when entering into an agreement for the payment of self-insurance claims the District should include specific guidelines on the establishment of the segregated fund, how monies are to be deposited from the District into the fund, and what expenditures are to be made from the fund are solely for District purposes. In addition, the District should include in the contract a right to audit the activity of this segregated account to ensure the account is following the guidelines established in the agreement.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## Issue No. 3 - Review of IEC's Claims Payments to Health Care Providers

We reviewed copies of "Explanation of Benefits Statements" ("EOBs") remitted to the District by IEC during the Period and compared the check number, check date, claim number, health care provider, and payment amount indicated on the "Statements" to the related canceled checks to determine if the claims were accurately paid by IEC on the District's behalf.

### Procedures:

1. We obtained all of the EOBs maintained by the District and the canceled checks issued from the IEC Claims Escrow accounts to perform a comparison of the information on the two sources of documentation.
2. We created a spreadsheet listing and listed information as reflected on the EOB which included: a) the claim number; b) health care provider name; c) amount of the claim; d) check number issued; e) date of the check; and f) the amount of the check.
3. We compared the information on the spreadsheet to the canceled checks to determine that the claim was accurately paid by IEC.
4. We reviewed the endorsement of each canceled check to ensure it was endorsed and deposited by the appropriate health care provider.
5. We investigated any discrepancies and determined whether or not the claim was paid to the health care provider.

### Results

1. We obtained the EOBs sent to the District by IEC and prepared a computerized spreadsheet to record the following relevant information taken from the EOBs: a) the claim number; b) health care provider name; c) amount of the claim; d) check number issued; e) date of the check; and f) the amount of the check. We then removed any duplicate claim numbers and determined if there were gaps in the sequence of checks issued by IEC. We reviewed all gaps in check sequences and noted several were the result of a replacement check being issued by IEC at a later date. The replacement check was issued after a batch of claims was lost at IEC and had to be reissued.
2. We obtained the 4500 canceled checks issued by IEC for the payment of claims for the Period of January 1999 through September 1999. The check number, check date, check amount, and health care provider name was compared to the EOB payment information previously recorded on our spreadsheet. We noted no discrepancies. As no discrepancies were noted while reviewing these 4500 checks, we did not subpoena the 462 of the remaining 469<sup>3</sup> checks that cleared the bank in October, November, and December 1999. However, using the monthly bank statements we did agree the check number and check amount for those 462 checks to a corresponding check number and check amount reflected on a valid EOB. Again, we found no discrepancies. For the remaining seven checks, we were unable to locate an explanation of benefit statement to agree the check amount to. As a result, we subpoenaed the remaining 7 checks from National City Bank.<sup>4</sup>

---

<sup>3</sup> The decision not to subpoena the remaining 469 checks was agreed to by Superintendent Craycraft, Treasurer Martin, Payroll Clerk Weaver, and Marion County Prosecutor Slagle on February 16<sup>th</sup> & 17<sup>th</sup>, 2000.

<sup>4</sup> The remaining 7 checks which were subpoenaed are discussed in result 4 on page 17.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. After reviewing all transactions within the Claims Escrow accounts that represented a check transaction, we noted there were several EOBs indicating a payment had been made; however no such payment could be found within the bank accounts. Specifically, we noted:
  - 887 EOBs indicated a payment check was issued to the health care provider by IEC; however, no such check was issued by IEC. As a result, the District and the employee believed these claims were paid, however they were not.<sup>5</sup> These claims, which total \$177,069, represent a Finding for Recovery against IEC Benefits Administrators. We have provided a listing of these claims to the District and their current Third-party Administrator, Avalon Benefit Services, so that they may be paid.
  
4. While comparing EOB payment information to the corresponding canceled checks, we also noted the following:
  - Three checks totaling \$481 were duplicate payments. There was no indication that the health care providers refunded the duplicate payments to IEC or the District. This represents a Finding for Recovery against IEC Benefits Administrators in the amount of \$481.
  - Check number 4032 in the amount of \$339 was issued to MedCenter Hospital. However, the check was incorrectly sent to MedCenter Anesthesia who cashed the check. MedCenter Anesthesia refunded the \$339 to IEC in July 1999. We observed a request for refund form dated July 20, 1999 utilized by Darlene at MedCenter Anesthesia, Inc which indicated a refund was to be mailed to IEC. Darlene indicated the reason for the refund on the form was the individual was “not our patient. MedCenter Anesthesia cashed in error.” However, we observed this refund check was not deposited into either the Claims Escrow accounts or Administrative account during July through September 1999. Subsequently, the District’s current third-party administrator, Avalon Benefit Services paid the claim to MedCenter Hospital with District monies. This represents a Finding for Recovery against IEC Benefits Administrators in the amount of \$339.
  - Eight checks totaling \$1,731 were sent to health care providers by IEC; however the same payments, to the same health care providers, for the same claims were made by the District’s current third-party administrator, Avalon Benefit Services, the District’s current Third-party Administrator. We will recommend the District recover these overpayments from Avalon Benefit Services.
  - Four checks totaling \$513 were sent to health care providers by IEC; however the same payments were already made to the health care providers either by IEC or by the District employee. The District has been refunded the duplicate payments totaling \$513.
  - Seventy-eight (78) canceled checks were not supported by an EOB. Of these 78 checks, 70 were issued directly to District employees for reimbursement of a claim payment which the employee made to the health care provider and then later submitted the claim to IEC. In these cases, the District did not receive supporting documentation for the payment to maintain in their files.
  - There were 462 checks in which we did not have the canceled check. Of these 462 checks listed on the bank statement, we noted no errors when comparing the check number and check amount to the information included on a corresponding EOB.

---

<sup>5</sup>As stated in Issue #1, Mr. Cooper represented to us that he used monies which the District remitted to him for payment of claims to pay his administrative expenses.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- There were seven checks which cleared the bank statement in which no EOBs could be located. A subpoena was issued to National City Bank for these seven checks on February 22, 2000 to determine the health care provider of the checks. We received six of the seven checks requested. Two of the checks were written to Claimspro, three of the checks were written to employees and one was written to a local health care provider. We do not know the vendor name of the remaining check for \$180.47; however, based on our review of the other checks, we did not note any errors when comparing the check number to the explanation of benefit statement and will not review this check any further.
5. While reviewing the endorsements of canceled checks, we noted no unusual endorsements. In each case, the endorsement on the back of the check agreed to the payee health care provider, or the bank stamped the check endorsement guaranteed to the payee health care provider on the front of the check. None of the checks issued to health care providers were endorsed by Mr. Brad Cooper.

## FINDINGS FOR RECOVERY

1. IEC Benefits Administrators was contracted by Tri Rivers Joint Vocational School District to act as the District's third-party administrator of its self-insurance program beginning December 1, 1998. As its third-party administrator, IEC was responsible for processing and paying all medical claims of employees covered under the District's self-insurance program.

IEC prepared an "Explanation of Benefits Statement" (EOB) for each claim it processed. The face of each EOB contained the number and amount of the check allegedly sent to the health care provider by IEC. When attempting to trace the check numbers and amounts per the EOBs to the corresponding canceled checks, we noted 887 claims, totaling \$177,069, which IEC represented as paid, yet no payment had been made.

As stated in Issue No. 2, a review of the IEC check registers, the District's canceled checks, and the corresponding deposits recorded in IEC bank accounts indicate the District did remit the monies necessary to fund the above mentioned claims; however these monies were not used to pay these claims. During our interview with Mr. Brad Cooper, President of IEC, he stated that he floated money between the various bank accounts of IEC to cover his business expenses. This explanation was supported in Issue No. 2, as we noted numerous deposits and withdrawals occurring within the bank accounts that were not supported by valid claims or administrative fees of the District.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for monies converted or misappropriated is hereby issued against Mr. Brad Cooper, President of IEC Benefit Administrators, Inc., and his bonding company CNA Financial Insurance, jointly and severally, and in favor of the Tri-Rivers Joint Vocational School District, in the amount \$177,069.

2. During a comparison of the Explanation of Benefit Statements to the canceled checks issued by IEC Benefit Administrators, Inc., we noted there were instances in which the claim was paid twice by IEC Benefits Administrators. The following is a table indicating the claims which were paid twice by IEC:

<u>Claim Number</u>	<u>Check Number</u>	<u>Replacement Check Number</u>	<u>Health Care Provider</u>	<u>Amount Paid</u>
99000195-02	1662	3739	Premier Health Care	\$234
99000013-19	3143	3861	Mercy Hospital, Willard	80
99001656-03	2641	3892	Mid Ohio Pediatrics and A	<u>167</u>
				<u>\$481</u>

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Mr. Brad Cooper, President of IEC Benefit Administrators, Inc., and his bonding company CNA Financial Insurance, jointly and severally, and in favor of the Tri-Rivers Joint Vocational School District, in the amount \$481.

3. On June 4, 1999, IEC Benefit Administrators issued a check to MedCenter Hospital in the amount of \$339 for claim number 99002665-05. This check was erroneously sent to MedCenter Anesthesia who deposited the check into their account. In July 1999, MedCenter Anesthesia remitted a refund to IEC Benefit Administrators. This \$339 was not deposited into either the Claims Escrow Accounts or the Administrative Account maintained by IEC. Meanwhile, the District utilized their new third-party administrator to pay the claim to MedCenter Hospital in the amount of \$339.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies converted or misappropriated is hereby issued against Mr. Brad Cooper, President of IEC Benefit Administrators, Inc., and his bonding company CNA Financial Insurance, jointly and severally, and in favor of the Tri-Rivers Joint Vocational School District, in the amount \$339.

**MANAGEMENT COMMENTS** (Also see General Comments Section at the end of the this report)

**Duplicate Payments Made by Avalon Benefits**

During a comparison of the Explanation of Benefit Statements to the canceled checks issued by IEC Benefit Administrators, Inc., we noted there were instances in which the claim was paid twice; once by IEC and again by the District's current third-party administrator, Avalon Benefits. The following is a list of those claims:

<u>Claim Number</u>	<u>IEC Check Number</u>	<u>Avalon Check Number</u>	<u>Health Care Provider</u>	<u>Amount Paid</u>
99002266-01	3212	1676	MedCenter Health System	\$97.00
99001178-22	4362	1113	Marion General Hospital	1,140.43
99001772-06	4398	1159	M L Denton DC	\$31.50
99003269-01	4781	1065	Marion General Hospital	\$141.65
99003291-01	4789	1109	Marion General Hospital	\$62.55
99003292-02	5010	1117	Premier Health Care	\$123.15
99000876-19	5605	1003	Central Ohio Behavioral M	\$103.50
99001772-10	5886	1162	M L Denton DC	\$31.50
				\$1,731.18

On April 5, 2000, we spoke with Terry Smith of Avalon Benefits and indicated there were eight claims Avalon Benefits had paid which were already paid by IEC. Mr. Smith obtained the claim numbers, Avalon Check numbers and the amount paid to begin their process in obtaining the monies from the health care providers to return to the District.

We recommend the District monitor Avalon's progress in recovering these duplicate payments until all duplicate payments are returned.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## **Claims Exceptions**

During the contract with IEC Benefit Administrators, the District would occasionally receive complaints from employees who indicated they had received a bill stating the claim had not been paid. The District's process was to contact IEC who was then responsible for correcting the problem. Many times a new check was issued by IEC. However, it did not appear IEC was researching the problem which resulted in duplicate payments. The District should obtain the results of what the problem was, why it occurred, and how it was resolved to ensure the Third-party Administrator is investigating the error instead of just reissuing a check. This will help to reduce the likelihood of a duplicate payment.

Each time an error with a claim is encountered, the District should work with the third-party administrator to resolve the problem. The District should maintain a file with the resolution of the problem and review the monthly report to ensure the proper expenditures were made by the third-party administrator.

## **Claims Payment Documentation**

The District did not receive an "Explanation of Benefits Statement" to support payments which IEC made directly to District employees for reimbursement of medical expenses. Without such documentation, it is unknown whether these payments were subjected to the same internal control procedures established to ensure validity and eligibility.

The District should require an "Explanation of Benefits Statement" for all disbursements made from its Escrow Account by the third-party administrator. An "Explanation of Benefits Statement" will provide the District with assurance that employee reimbursement payments are processed in the same manner as all other employee claims.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## Issue No. 4 - Review of IEC's Payments to Third-party Vendors

We reviewed the administrative fees paid to IEC and the usage of those fees by IEC and determined whether or not the reinsurer and other parties related to the claims processing activity were paid by IEC during the Period for services provided to the District.

### Procedures:

1. We interviewed Mr. Brad Cooper, President of IEC, to determine how the administrative fees were determined and third party vendors were paid. In addition, we obtained how the amount of the payment made was calculated from administrative fees received from the District and how often the payments were to be made.
2. We contacted each of the Third party vendors who were to receive payment and reviewed documentation sent to the District indicating the payments not received during the Period.
3. We obtained copies of the contracts between Claimspro, Ohio Health Group, and American Insurance Managers to determine the amounts the Third party vendor is to receive and any commissions to be paid to IEC.
4. We compared the payments made to supporting documentation to verify the accuracy of the statements provided by the Third party vendor and determined whether or not monies were due to the Third party vendors.

### Results

1. We reviewed the Administrative Services agreement between the District and IEC to determine what IEC's responsibilities to the District were. The responsibilities, outlined in Section 1.1 of the agreement, were as follows:
  - Evaluate and process each claim filed pursuant to the terms of the Plan or any written instruction received by the client. IEC shall not have the power or authority to alter, modify, or waive any terms of the plan.
  - Provide the client and its designated representatives with available information pertaining to the plan as reasonably requested.
  - Maintain all appropriate records and files concerning the plan.
  - Periodically provide the client with financial and plan management reports.
2. The contract between the District and the OhioHealth Group (OHG) provides in Section 4.1 the Third Party Administrator pay OHG a fee of \$5.50 per employee per month signed in November 1998 effective for the period December 1998 through June 30, 1999. In July 1999, the District signed an amendment to the contract which increased the amount charged to \$5.85 per employee per month for July 1999 through November 1999. This fee was also approved in Appendix A of the Administrative Services contract in November 1998 and amended in July 1999. We also noted for the period of December 1998 through November 1999, IEC would remit various fees to OhioHealth Group in accordance with this contract with the exception of the months noted later in this section.

We reviewed the contract between the District American Insurance Managers and noted there was no provision indicating whether it was the District's or IEC's responsibility to pay the fees to the vendor. The contract between the District and Claimspro indicated the District was responsible for making payment for the monies due to Claimspro. We noted for the Period, IEC billed the fees due to American Insurance Managers as part of the administrative fee bill. When IEC received these fees from the District, IEC remitted the monies due to American Insurance Managers each month during the Period, except those months noted later in this section. We also noted IEC included the amounts due to Claimspro in their listing of claims to be paid which were sent to the District on a weekly basis. We noted upon receipt of these monies IEC would remit the monies to Claimspro.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Our review of other self-insurance programs indicated it is a standard practice for the third party administrator to pay the reinsurance carrier, the discounter, and the third party vendor of the prescription plan.

3. We interviewed Mr. Brad Cooper, President of IEC Benefit Administrators on December 7, 1999 who indicated the following administrative fees were billed to the District:
  - American Insurance Managers/Alliance Benefit Managers (ABM) - For the Period of December 1998 through June 30, 1999, the District had a contract with ABM for its coinsurance. Beginning July 1, 1999, the District contracted with American Insurance Managers for its coinsurance. Each month, IEC would bill the District an amount set by IEC based on the premiums due to American Insurance Managers for each employee depending upon the coverage the employee maintained.
  - OhioHealth Group - This company provided the network of physicians the employees of the District were allowed to utilize to obtain a discount on the services received by the employee. IEC billed the District an administrative charge by employee for allowing the employees to participate in this network. The amount billed was established in the Administrative Services Agreement with IEC.
  - Brokerage Fees - This is the amount IEC received for acting as the District's claims processor. The amounts were established in the Administrative Services Agreement between the District and IEC. This fee was a combination of the service fee per individual and the fee for COBRA insurance per individual.
4. Mr. Cooper also indicated he was responsible for making payments to Claimspro. Claimspro was the Third party vendor who provided the prescription card program to the employees of the District. The District contracted with Claimspro who submitted invoices with check registers to IEC. IEC included these amounts with the other claims to be paid and notified the District of amounts needed to fund the claims processed.
5. We contacted the coinsurance third party vendors during the Period to determine if they had received all of the monies due to them when IEC was the Third-party Administrator. We noted there were no discrepancies in the payments to ABM during a review of expenditures from the Administrative Account.

We obtained a communication sent to Jeff Perkins of American Insurance Managers (AIM) from Terry Smith of Avalon, Inc., the District's current third-party administrator which reflected: a) the amount paid to IEC by the District which was not remitted to AIM - this represented the premiums due to AIM for the months of August through November 1999; b) the total amount due to AIM; c) the amount the District paid directly to AIM; and d) the amount to be paid to AIM by Avalon.

On December 4, 1999, the District paid AIM \$35,814.09 for the premiums due to AIM for the months of August, September, and October 1999, in which IEC did not remit payment. Avalon Benefit Services remitted the payment due for November 1999 to AIM in the amount of \$12,053.20.

The following table represents the monies remitted to IEC for payments due to AIM which were not made by IEC which are owed to the District:

Month	Amount Remitted by the District to IEC
August	\$12,994.17
September	13,521.40
October	15,618.66
November	<u>14,180.23</u>
	<u>\$56,314.46</u>

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

This represents a Finding for Recovery against IEC Benefit Administrators in the amount of 56,314.46.

6. We contacted OhioHealth Group to determine if it had received all of the monies due from the District during the Period IEC was the Third-party Administrator. We obtained a confirmation from OhioHealth Group indicating it was owed a total of \$4,047.50 for the months of May, June, August, October and November 1999. On December 4, 1999, the District remitted \$3,158.20 to OhioHealth Group. The remaining \$889.30 was paid to OhioHealth Group by Avalon Benefit Services. The following table represents monies remitted to IEC for payments due to OhioHealth Group which were not made by IEC:

<b>Month</b>	<b>Amount Remitted by the District to IEC</b>
May	\$803.00
June	830.50
August	848.25
October	1,064.70
November	<u>953.55</u>
	<u>\$4,500.00</u>

This represents a Finding for Recovery against IEC Benefit Administrators in the amount of 4,500.

7. We contacted Claimspro to determine if it had received all of the monies due during the Period IEC was the District's third-party administrator. We obtained a written confirmation from Claimspro which indicated it was owed \$27,269.44 for invoices dated August 11, 1999, August 25, 1999, September 8, 1999, and October 20, 1999.

On November 12, 1999, the District sent a check in the amount of \$34,918.78 to Claimspro for the following invoices:

<b>Invoice Date</b>	<b>Invoice Amount</b>
July 28, 1999	\$7,650.34
August 11, 1999	6,532.09
August 25, 1999	5,883.03
September 8, 1999	7,639.18
October 20, 1999	<u>7,214.14</u>
	<u>\$34,918.78</u>

- Per review of the IEC bank statements, we determined IEC did pay Claimspro for the invoice dated July 28, 1999. Claimspro refunded the District for the overpayment in the amount of \$7,650.34. The District deposited this refund into its account on December 2, 1999.
- Per review of the District's canceled checks and IEC's check registers, we noted that IEC did bill the District for the October 20, 1999 Claimspro invoice in the amount of \$7,214.14, however, the District did not remit payment for this invoice to IEC as it had ceased making any payments to IEC as of November 3, 1999 due to the problems encountered.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- Per review of the District's canceled checks, and IEC's check registers and canceled checks, we determined the District had remitted payment to IEC for the following Claimspro invoices which were never paid by IEC:

<b>Invoice Date</b>	<b>Amount Remitted by the District to IEC</b>
August 11, 1999	\$6,532.09
August 25, 1999	5,883.03
September 8, 1999	<u>7,639.18</u>
Total	<u>\$20,054.30</u>

This represents a Finding for Recovery against IEC Benefit Administrators in the amount of \$20,054.30.

- A review of the Administrative bank account checks provided by Mr. Cooper and National City Bank indicated there were payments to Duane Basil of Basil Insurance. Basil Insurance contracted with the third-party administrator for the District and received a commission from IEC on behalf of the District. We obtained a statement from Mr. Basil dated February 18, 2000, which indicates he has received all of the monies due to him from IEC.

### FINDING FOR RECOVERY

The Tri Rivers Joint Vocational School District signed an Administrative Services Agreement with IEC Benefit Administrators to process its claims for medical services. Appendix A of the agreement indicated IEC would charge the District fees per month for Medical Claims Administration, PPO/Utilization Fee, and COBRA Fee. As part of its monthly bill submitted to the District for administrative fees, IEC included a) a monthly fee for discount medical services contracted through OhioHealth Group; b) a charge per employee for coinsurance contracted through American Insurance Managers; and c) a brokerage fee for IEC for their services. In addition, IEC also billed the District a separate fee for prescription services contracted through Claimspro.

Section 4 of the contract signed by the District with OhioHealth Group indicated the Third Party would be responsible for payment of the fees incurred by the District. The agreement between IEC and the District stated in Section 7.1 "funds handled by the Representative on behalf of the client shall be held by the Representative (IEC) in a fiduciary capacity." During our interview with Mr. Brad Cooper, President of IEC Benefit Administrators, he stated it was IEC's responsibility to remit payment to OhioHealth Group, American Insurance Managers, and Claimspro.<sup>6</sup>

During our review of the District's canceled checks, IEC check registers and canceled checks, and confirmations received from OhioHealth Group, American Insurance Managers, and Claimspro we determined that:

- During the period December 1998 through April 1999, IEC appropriately remitted the necessary monthly fees to OhioHealth Group, American Insurance Managers, and Claimspro, as they were funded by the District; however,
- Beginning in May 1999, IEC did not remit the necessary payments to these vendors. The following table reflects the payments which were funded by the District but not paid by IEC:

---

<sup>6</sup> See interview discussed in Issue 1.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Month/ Invoice Date	OhioHealth Group	American Insurance Managers	Claimspro
May 1999	\$803.00	--	
June 1999	830.50	--	
August 1999	848.25	\$12,994.17	
August 11, 1999	--	--	\$6,532.09
August 25, 1999	--	--	5,883.03
September 8, 1999	--	--	7,639.18
September	--	13,521.40	--
October	1,064.70	15,618.66	--
November	<u>953.55</u>	<u>14,180.23</u>	--
	<u>\$4,500.00</u>	<u>\$56,314.46</u>	<u>\$20,054.30</u>

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for monies converted or misappropriated is hereby issued against Mr. Brad Cooper, President of IEC Benefit Administrators, Inc., and his bonding company CNA Financial Insurance, jointly and severally, and in favor of the Tri-Rivers Joint Vocational School District, in the amount \$80,868.76 for payments due to Third party vendors.

**MANAGEMENT COMMENTS** - See the General Comments Section at the end of this report.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## GENERAL COMMENTS

### MANAGEMENT COMMENTS

#### Selection of Third-party Administrator

Effective December 1, 1998, the District changed its third-party administrator for its self-insurance program from Polaris Benefit Administrators to IEC Benefit Administrators which was a newly formed company. Due to problems encountered with IEC Benefit Administrators, the District stopped funding claims processed by IEC in November 1999 and contracted with another small third-party administrator, Avalon Benefit Administrators in November 1999. This was a result of the District receiving numerous complaints claims were not being paid by IEC to the third party vendors or to the discounters and reinsurance carrier. There is no formal documentation indicating the termination of services with IEC.

When changing third-party administrators, the District should establish requirements for the third-party administrator such as: a) the need for segregated bank accounts to be used solely for District activity; b) the administrator's role as a fiduciary agent; c) guidelines of how claims should be processed; d) the reports and/or types of information that are to be provided to the District; e) the frequency which the information should be provided; f) the right of the District to audit the third-party administrators records with regard to the District's self-insurance activity; and g) guidelines for payments to outside vendors such as the discounters and coinsurer. The District should also perform a thorough check of the company and the services it has provided to other clients to determine if the third party vendor is able to provide the quality and reliable service needed by the District. It was noted IEC Benefits Administrator did not have an outside firm review the control practices at IEC's workplace. Such a review might have alerted the District to potential problems which could arise due to a lack of controls and segregation of duties. As a result of relying on a previous working relationship and a lack of controls at the Third Party Administrator, the District had a loss of approximately \$177,000 in unpaid claims and an additional \$80,000 to vendors for services the District received which were not paid by the third party vendor.

We recommend the District establish guidelines of what types of service and reports they want from a third party vendor, perform thorough background checks, and contact various governmental references to ensure the third party vendor is capable of managing the District's self-insurance program. In addition, the District should request the third-party administrator to obtain a Statement on Auditing Standards Number 70 report which will provide assurances to the District there are controls in place to reduce the risk of fraud or theft.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## Schedule of Findings For Recovery

<b>Page Number</b>	<b>Amount of Finding For Recovery</b>	<b>For</b>
17	\$177,069.00	Payments due to Health Care Providers
17-18	481.00	Payments to Health Care Providers made twice by IEC
18	339.00	Refund sent to IEC that was not returned to the District
24-25	<u>80,868.76</u>	Payments due to vendors
	<u>\$258,757.76</u>	



STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**TRI RIVERS JOINT VOCATIONAL SCHOOL**

**MARION COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 11, 2000**