



**FLORIDA
DEPARTMENT
OF
MANAGEMENT
SERVICES**

JEB BUSH
Governor

CYNTHIA A. HENDERSON
Secretary



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September 24, 2001

Cynthia A. Henderson, Secretary
Department of Management Services
4050 Esplanade Way, Suite 280L
Tallahassee, Florida 32399-0905

Dear Secretary Henderson:

I am pleased to submit our Annual Report on the activities of the Office of the Inspector General for the fiscal year ended June 30, 2001, as required by Section 20.055 (7), Florida Statutes. I am also pleased to report that we accomplished all of our major goals for the year.

The Annual Work Plan portion of the report includes planned projects for the current fiscal year and our projected activities for the next two fiscal years. Our Work Plan is risk-based to provide the most effective coverage of the Department's programs, processes, systems, and contracts with outside entities. Our risk analysis is based on surveys and meetings with key Department managers and a risk assessment performed by Office of Inspector General staff. The activities outlined in our Work Plan address the major operations of the Department and optimize the use of our resources. We have retained approximately 15 percent of our time for special projects including those requested by your office.

We look forward to working with you and our fellow Department of Management Services employees in meeting the challenges and opportunities that face the Department. With your approval, we will implement the Work Plan for fiscal year 2001-2002. Thank you for your continued support.

Respectfully Submitted

James D. Varnado
Inspector General

APPROVED: [signed]
Cynthia A. Henderson, Secretary
Department of Management Services



**FLORIDA DEPARTMENT
OF MANAGEMENT SERVICES**



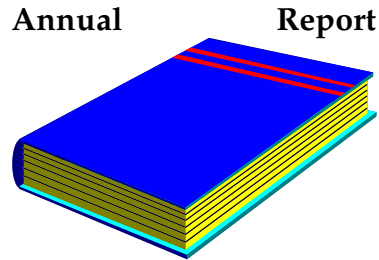
OFFICE OF INSPECTOR GENERAL

2000/2001 ANNUAL REPORT

2001/2002 WORK PLAN

LONG TERM PLAN

INTRODUCTION



*T*his Annual Report is presented to the Secretary to comply with statutory requirements and to provide departmental staff and interested parties with information on the Office of Inspector General's (OIG) progress in accomplishing its mission as defined by Florida law.

Section 20.055, Florida Statutes, establishes the OIG within each state agency to provide a central point for coordination of, and responsibility for activities that promote accountability, integrity, and efficiency in government.

Mission Statement

The OIG's mission is to promote efficient departmental programs and to assist in the accomplishment of the Department's overall mission of delivering valuable services to state and local governments and act as a deterrent to fraud, waste and abuse. By providing independent reviews, assessments and investigations of activities and programs, the OIG assists the Department in accomplishing its mission.

The OIG's responsibilities include:

- Advising in the development of performance measures, standards, and procedures for the evaluation of agency programs;
- Reviewing actions taken by the agency to improve program performance and meet program standards;
- Providing direction for supervising and coordinating audits, investigations, and management reviews relating to agency programs and operations;

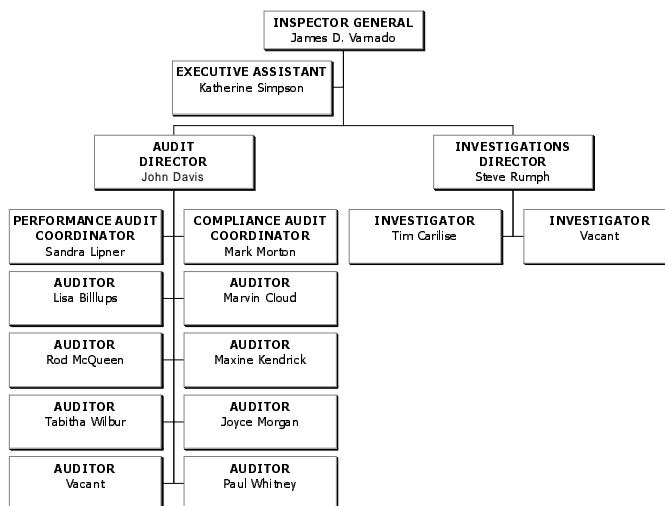
- Recommending corrective action concerning fraud, abuse, and deficiencies in agency controls; reporting on progress made in implementing corrective action;
- Reviewing rules relating to agency programs and operations, and
- Ensuring that an appropriate balance is maintained between audit, investigative, and other accountability activities.



OIG Organization and Staff

To carry out our duties and responsibilities, the OIG is organized into two sections: Internal Audit and Investigations.

The OIG has a staff of 15 professional/technical positions and one administrative position. Our



organizational structure is as follows:

OIG Staff Certifications

OIG employees have a wide range of experience in both the public and private sectors. Staff members have supervised and conducted audits at the federal and state level and bring backgrounds and experience in law, accounting, law enforcement, program

evaluation, management,
computer science,
banking,

engineering, and communications. Professional certifications held by the staff include:

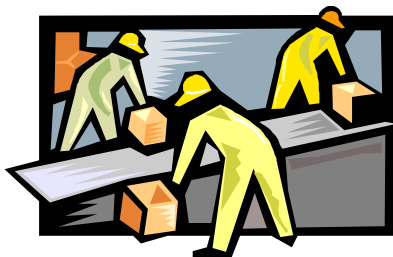
Certifications	No.
Certified Inspectors General	2
Certified Public Accountant	2
Certified Internal Auditor	1
Certified Quality Auditor	1
Certified Fraud Examiner	1
Certified Private Investigator	1
Advanced Degree	3
Certified Government Financial Manager	1

Staff Affiliations

OIG staff is affiliated with the following professional organizations:

- American Institute of Certified Public Accountants
- The Florida Bar
- Association of Certified Fraud Examiners
- Association of Government Accountants
- Association of Military Comptrollers
- Institute of Internal Auditors
- Southeastern Evaluation Association
- National Association of State and Local Inspectors General
- The Florida Audit Forum
- Information Systems Audit and Control Association

MAJOR ACTIVITIES AND FUNCTIONS



In order to carry out its mission, OIG performs the following functions:

INTERNAL AUDIT

Internal Audit performs independent audits, reviews, and examinations to identify, report, and recommend corrective action for control deficiencies or non-compliance with laws, policies, and procedures. Audits are also performed to evaluate and make recommendations to improve the effectiveness and efficiency of Department programs and functions.

Audits are conducted in accordance with the current *Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors (IIA), Inc. Financial audits may be subject to the standards for generally accepted auditing principles promulgated by the American Institute of Certified Public Accountants. OIG audit reports are distributed to the Secretary of the Department, Office of the Auditor General, Office of the Chief Inspector General, and Department managers.

Responsibilities and functions of Internal Audit include:

- Conducting *Performance Audits* to ensure the effectiveness, efficiency, and economy of the Department's programs. Elements of financial, compliance, and information systems audits are often included within the scope of such audits.
- Assessing the reliability and validity of information provided by the Department on *Performance Measurement* and standards.

- Conducting Compliance Audits to ensure that the Department's programs are following prescribed statutes and rules. OIG performs compliance audits to assess external agencies' compliance with statutes and rules pertaining to participation in the Florida State Employees Retirement System. This includes providing technical assistance to agencies in meeting participation and reporting requirements.
- Providing Management Assistance Services that involve consulting and advising management on departmental policies and procedures and the development of performance measures.
- Coordinating responses and conducting follow-ups to findings and recommendations made by the Auditor General, Office of Program Policy Analysis and Government Accountability (OPPAGA), Inspector General, and other oversight units.

INTERNAL INVESTIGATIONS

The Internal Investigations Section works to deter, detect, and investigate crimes or misconduct impacting the Department. The Section receives inquiries or complaints regarding departmental activity from many sources, including the Whistle-blower's Hotline, the Comptroller's Get Lean Hotline, the Chief Inspector General's Office, and the Governor's Office. Complaints are also received from people who do business with the Department and from upper management or line personnel in our agency. Some complaints are broad and address entire programs while others have a more limited scope.

Staff monitor and track all cases. If the case appears to involve criminal activity, it is referred to law enforcement or appropriate jurisdiction. The Office reports completed investigations and the disposition of cases to the Department Secretary and appropriate managers. When allegations are sustained involving possible disciplinary action, the OIG works with the Department's Bureau of Personnel Management Services, the General Counsel, and Program

Managers to make
recommendations as to the

appropriate disciplinary action.

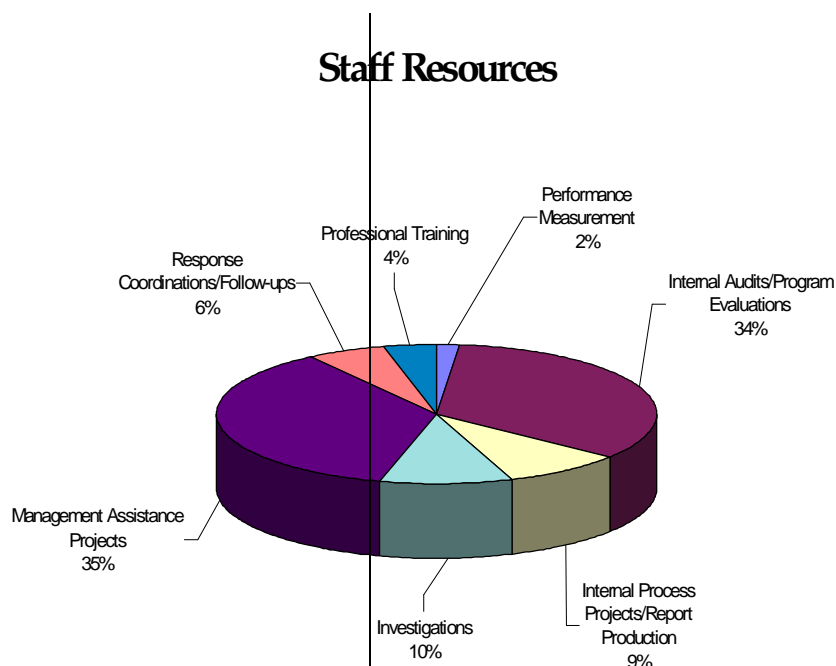
ACHIEVEMENTS



*D*uring Fiscal Year (FY) 2000-2001, the OIG accomplished workload or issued reports by functional area as follows:

Function	No. of Reports	Questioned Cost/Recovery
Performance Audits	5	\$ 5,487,000
Compliance Audits	50	\$ 824,000
Performance Measurement Reviews	4	
Response Coordination and Follow-ups	11	
Investigations	29	

To accomplish our goals, personnel resources were utilized as shown in the following chart:



A summary of the major activities of the OIG during FY 2000/2001 follows:

PERFORMANCE AUDITS

During FY 2000-2001, the Performance Audit Section completed 5 audits with recommendations resulting in savings or questioned costs of approximately \$5 million per year. Our reports are available online at: <http://fcn.state.fl.us/dms/seclfignet/ighome.html>.

Following are highlights of the audits and reviews completed during the past year.

Technology Consultant Services, IA Report 2000-118

This audit showed that Department procedures pertaining to the establishment of state term contracts for information technology services did not ensure that adequate competition existed for the procurement of such services by state agencies and other users. The review showed that (1) state term contracts with

vendors were established without adequate negotiation of prices, (2) state term contracts offered an excessive number of services and range of prices that were too broad and difficult for agencies to use in making informed procurement decisions, (3) agencies were not provided with the necessary information and instructions for purchasing information technology consultant services as prescribed by Florida Statutes, and (4) state term contract language was unclear as to the ownership of intellectual property rights. Management took actions to correct the deficiencies noted in the audit report.

Audit of Acquisition and Management of Information Technology Consultant Contracts, IA Report 2000-124

The audit showed that the Department did not have a contract administration function. As a result, some contracts lacked appropriate internal review and did not fully comply with statutory requirements for contractual services

contracts. Contract terms and conditions frequently did not address specific elements needed to ensure receipt of quality and timely services.

In addition, some projects were not adequately planned prior to the contracting process. As a result, some vendors failed to make satisfactory progress or provide quality services during the contract term. This required the Department to contract with other vendors to correct and complete project work. Management concurred with the recommendations and took actions to correct the deficiencies noted.

*Audit of User Surcharges,
IA Report 2000-58*

Our review showed that the State Purchasing Office could generate an additional \$2.9 million in trust fund revenue by revising its surcharge assessment procedures. This additional revenue would significantly reduce the need for general revenue funding. The review determined that, to become self-supporting, State Purchasing needed to establish an overall funding strategy that considers a more

equitable assessment of user surcharges. Management agreed with the audit recommendations and took actions to generate additional revenue as well as establish a more equitable surcharge assessment for vendors.

*Audit of Internal Service Funds, State Technology
Office, IA Report 2000-102*

The audit showed that the State Technology Office (STO) needed to manage the accounts receivable function more aggressively. Improvements in the processes for issuing invoices and collecting debt would result in significant revenue gains. For example, the STO took an excessive amount of time to invoice customers for services resulting in lost interest income of about \$966,000. STO also had \$5.1 million in uncollected accounts receivable resulting in potential lost interest income of about \$500,000 during the last two fiscal years. We recommended that STO (1) implement electronic billing and direct debt collection techniques and (2) establish performance indicators to assist managers in measuring the effectiveness and efficiency of the accounts receivable function.

occurred because divisions did not closely audit monthly invoices for local service. Based on the audit recommendations, 264 telephone lines were disconnected at a savings of about \$90,000 annually. The other 197 telephone lines were reviewed to determine if they were needed.

PERFORMANCE MEASUREMENT REVIEWS

In FY 2000-2001, the OIG evaluated the reliability and validity of 14 measures submitted by the Division of State Group Insurance, Office of Supplier Diversity, State Fleet Management, Federal Property Assistance, and State Technology Office. In most cases, we found the measures to be reliable and valid in all material respects.

Throughout the year, the OIG assisted managers and staff with developing and revising performance measures and standards. As part of this effort, the OIG provided a preliminary review of all new performance indicators included in the Department's FY 2001-2002 Agency Strategic Plan.

COMPLIANCE AUDITS

During FY 2000-2001, the Compliance Audit Section performed 50 compliance reviews of local government retirement program participants and recovered approximately \$824,000 in underpayment of retirement contributions. Compliance audits consisted mainly of reviews of payroll records, personnel files, and earnings records. In addition, the Compliance Audit Section completed 6 special reviews. These reviews identified errors relating to accumulated annual leave payments, accumulated sick leave payments,

Audit of Local Telephone Service, IA Report 2001-

35

The review showed that the Department needed to improve controls over the purchase and payment of local telephone service. Our analysis of telephone service showed that the Department was paying for 461 telephone lines that were not needed (assigned to vacant offices or positions), did not belong to the Department, or were no longer in service. These

Compliance reviews were performed at participating entities such as:

- ✓ County Commissions
- ✓ County Property Appraisers
- ✓ County Tax Collectors
- ✓ County School Boards
- ✓ County Clerks
- ✓ County Comptrollers
- ✓ County Sheriffs
- ✓ County Supervisor of Elections
- ✓ Cities
- ✓ Water Districts

RESPONSE COORDINATION AND FOLLOW-UP

We coordinated the Department's responses to 4 Auditor General and 3 OPPAGA reports, containing a total of 11 issues. Additionally, we followed up on 20 issues from 4 Auditor General/OPPAGA audit reports at 6 and 18 months after the report date. Because of our efforts, 19 of the 20 issues were resolved.

In addition to statutorily required follow-ups, we periodically review unresolved audit issues. Using this process, we followed up on 15 outstanding internal and external audit issues, resulting in the resolution of 12 of the issues.

MANAGEMENT ASSISTANCE SERVICES

During each year, the OIG reserves staff time to devote to those issues in which Department management expresses an interest. During 2000-2001, the Internal Audit Section performed several reviews at the request of Department management. These reviews addressed the following issues:

- ✓ Personal services contracts;
- ✓ Organizational realignment issues;
- ✓ Purchasing Card use; and
- ✓ Vehicle utilization

compensatory time payments, merit bonus payments, unreported earnings, performance incentive payments, and unreported workers compensation payments.

The Investigations Section opened 29 new cases during the year. For the majority of cases, allegations centered on violations of employee conduct standards and vendor misconduct. These 29 cases involved 52 allegations of which 36 were substantiated. Administrative sanctions such as terminations and reprimands were imposed. Representative examples of the cases were:

Vendor Misrepresentation, II Report 2001-70

A DMS vendor on state term contract reported that an individual fraudulently represented himself as a retailer for the vendor. The retailer used this misrepresentation to enter into a contract to sell products of the vendor to a buyer. After purchasing the misrepresented products, the products were found to be defective by the buyer. The buyer then looked for reimbursement from the DMS vendor. Our investigation showed that the DMS vendor did not manufacture the products. The retailer settled with the buyer and discontinued selling the products.

Minority Business, II Report 2001-54

An allegation was made that a registered minority vendor was not a valid minority business at the time the business bid on a state term contract. It was also alleged that the vendor offered services without being on a valid state term contract. Our investigation showed that the allegation against the business firm was unsubstantiated. The firm was a certified minority business at the time it entered into the state term contract. Subsequent to entering into the state term contract, the owner sold the firm. The terms of the sale provided the new owner would assume all existing agreements from the prior owner. It was determined that there was no prohibition on the new owner assuming the place of the previous owner on the state term contract.

Contract Employee Misconduct, II Report 2001-4

An employee reported that a racially slanderous music file had been found on an individual's personal computer drive. The file belonged to an employee who worked for a vendor under contract with the department. The contractor's employee was using equipment owned by the department and had access to department e-mail and networks. Upon searching the employee's computer, 105 music files were found on the computer's hard drive, some of which contained offensive words in the lyrics or title. Also, it was found that the employee had visited sexually explicit web sites. We directed that the contractor's employee not be allowed to use department or state owned equipment and that the employee not be allowed access to the department networks or e-mail.

ANNUAL WORK PLAN

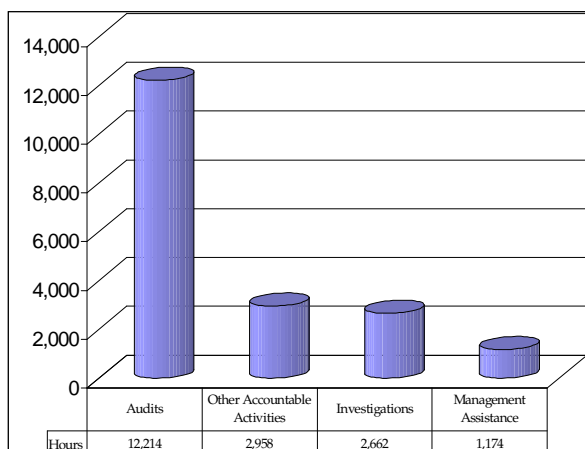
2001/2002



The purpose of developing the annual work plan is to identify, select, and plan the allocation of resources for the upcoming year. The overriding consideration during the development of our annual work plan is to provide the greatest benefit to the Department with our limited resources.

This Work Plan details products to be delivered. For the upcoming year, we plan to continue devoting the majority of our resources to internal audits and investigations. Based on current staffing, it is expected that the OIG will have approximately 19,008 hours available for work. The resource allocation depicted in the following chart represents an appropriate balance between audit, investigative, and other accountability activities at the Department of Management Services.

ANNUAL WORK PLAN – FISCAL YEAR 2001/2002



Allocation of resources for FY 2001/2002 is shown in the following table by specific category.

Allocation of Time Resources for FY2001/2002

Audit/Program Evaluation Hours

Performance Measure Validation	1,000
Contract Management - Fac. Mgt.	700
Contract Management - Retirement	600
Contract Management - DSGI	620
Software License Procedures	400
Disposition of Surplus Vehicles	400
Work In Progress	600
Subtotal	4,320

Investigation Projects Hours

Comptroller's Complaints	200
Unallocated	2,462
Subtotal	2,662

Management/Support Hours

Personnel Issues	240
Staff Meetings	312
Timekeeping System	312
Management/Coordination	78
Subtotal	942

Internal Process Analyses/Report Hours

Annual Work Plan/Report	160
Annual Risk Assessment	240
Subtotal	400

Management Assistance Services Hours

Reserved	1,174
Subtotal	1,174

Holidays and Leave Hours

Holidays	960
Annual Leave	2,112
Sick Leave	1,248
Other Leave	192
Subtotal	4,512

Special Projects Hours

Single Audit Act	100
Schedule IX	80
Other	100
Subtotal	280

Response Coordination Hours

Response Coordination	200
Six-Month Follow-ups	320
Eighteen-Month Follow-ups	80
Internal Follow-ups	160
Subtotal	760

Professional Training Hours

Staff Development	96
Professional Training	480
Subtotal	576

Audit Complince Hours

Compliance Reviews	7,000
Special Retirement Projects	894
Subtotal	7,894

Total Available Hours

23,520

LONG TERM PLAN FOR 2002/2003 AND 2003/2004



Our long-term plan is to ensure that the services of the Office of Inspector General provide the most benefit to the Department. Our goal is to achieve and maintain an appropriate balance between audit, investigative, and other accountability activities.

Based on the 2001/2002 Annual Work Plan, 23,520 work hours will be available for the Office of Inspector General. The Office of Inspector General expects to expend the number of hours outlined below for each category during FY 2002/2003 as well as FY 2003/2004.

ACTIVITY	HOURS
Audit/Program Evaluations	4,320
Compliance Reviews	7,000
Investigations	2,662
Management Assistance	1,174
Response Coordination/Follow-up	760
Internal Process Analyses/Reporting	400
Holidays and Leave	4,512
Management and Support	942
Special Projects	280
Professional Training	576
Special Retirement Projects	894
Total Available Hours	23,520

APPENDIX A

Distribution List

Marcia Cooke, Chief Inspector General
John Turcotte, Director of Office of Program Policy
 Analysis and Government Accountability
William O. Monroe, Auditor General
Martha Parker, Office of the Auditor General
Chairman, Joint Legislative Auditing Committee, Attention: Terry Shoffstall
Barbara Auger, Deputy Secretary
Foster Harbin, Deputy Secretary
Garrett Blanton, Chief of Staff
Cameron Yarbrough, Legislative Director
Kathleen Anders, Communications Director