

September 25, 2003

**FLORIDA
DEPARTMENT OF FINANCIAL SERVICES
ANNUAL REPORT
FISCAL YEAR 2002-2003**

OFFICE OF INSPECTOR GENERAL

David M. Harlan, Jr., CPA, CIG, Inspector General



THE TREASURER OF THE STATE OF FLORIDA
DEPARTMENT OF INSURANCE

TOM GALLAGHER

September 28, 2001

The Honorable Tom Gallagher
Treasurer, Insurance Commissioner,
and State Fire Marshal
The Capitol, PL-11
Tallahassee, Florida 32399

Dear Treasurer Gallagher:

Section 20.055(7), Florida Statutes, requires each Inspector General to prepare an annual report not later than September 30 and provide it to the agency head. The report summarizes the activities of the Office of Inspector General during the immediate preceding state fiscal year. I have attached the annual report for my office.

If you have any questions or would like to discuss the report further, I am available at your convenience.

Sincerely,

A handwritten signature in cursive script, appearing to read "David M. Harlan, Jr.", with a long horizontal flourish extending to the right.

David M. Harlan, Jr.

cc: Paul Mitchell

Attachment

TREASURER • INSURANCE COMMISSIONER • FIRE MARSHAL

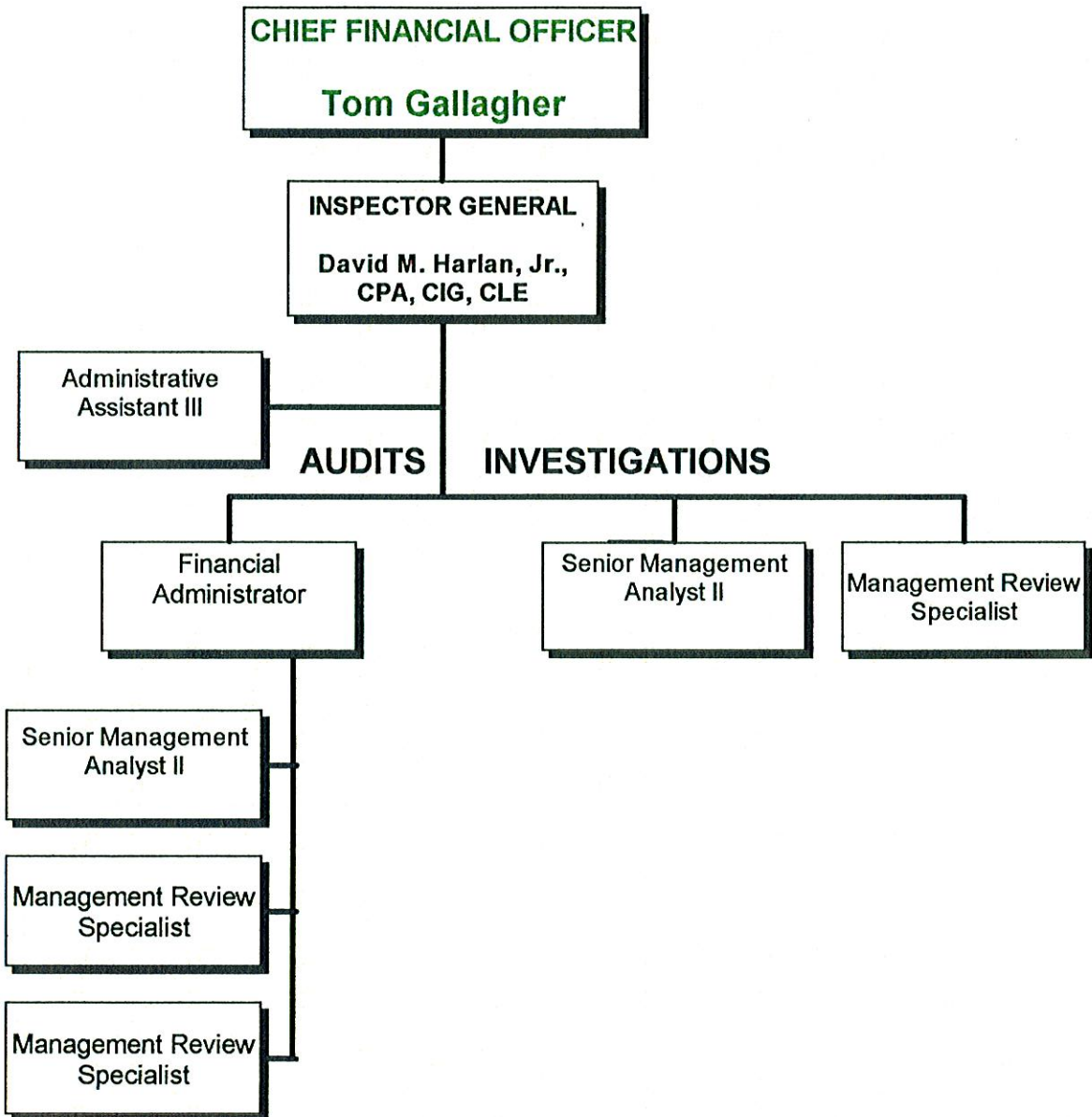
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**FLORIDA DEPARTMENT OF FINANCIAL SERVICES
OFFICE OF INSPECTOR GENERAL
ORGANIZATION CHART**



INTRODUCTION

Annual Report

Section 20.055(7), Florida Statutes, provides that not later than September 30 of each year, each Inspector General shall prepare an annual report summarizing the activities of the Office of the Inspector General (OIG) during the immediately preceding state fiscal year. The final report shall be furnished to the agency head. Such report shall include, but not be limited to:

- Description of activities relating to the development, assessment, and validation of performance measures;
- Description of significant abuses and deficiencies relating to the administration of programs and operations of the agency disclosed by investigations, audits, reviews, or other activities during the reporting period;
- Description of the recommendations for corrective action made by the Inspector General during the reporting period with respect to significant problems, abuses, or deficiencies identified;
- Identification of each significant recommendation described in previous annual reports on which corrective action has not been completed; and
- A summary of each audit and investigation completed during the period.

Duties of the Inspector General

The Inspector General Act of 1994 established an OIG in each agency and delineated the powers, duties, functions and activities of the Inspector General. The OIG was established in the Florida Department of Financial Services to provide a central point for coordination of and responsibility for activities that promote accountability, integrity, and efficiency in the Department. The OIG is assigned the following duties (not in order of priority) as provided in Section 20.055(2), Florida Statutes:

- Advise in the development of performance measures, standards, and procedures for the evaluation of state agency programs;
- Assess the reliability and validity of the information provided by the state agency on performance measures and standards, and make recommendations for improvement;

Introduction

- Review the actions taken by the state agency to improve program performance and meet program standards and make recommendations for improvement, if necessary;
- Provide direction for, supervise, and coordinate audits, investigations, and management reviews relating to the programs and operations of the state agency;
- Conduct, supervise, or coordinate other activities carried out or financed by the state agency for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in its programs and operations;
- Keep such agency head informed concerning fraud, abuses, and deficiencies relating to programs and operations administered or financed by the state agency, recommend corrective action concerning fraud, abuses, and deficiencies and report on the progress made in implementing corrective action;
- Ensure effective coordination and cooperation between the Auditor General, federal auditors, and other governmental bodies with a view toward avoiding duplication;
- Review, as appropriate, rules relating to the programs and operations of such state agency and make recommendations concerning their impact; and
- Ensure that an appropriate balance is maintained between audits, investigations, and other accountability activities.

MISSION, GOALS, AND RESPONSIBILITIES

Mission

To assist the Department in facilitating its programs, functions, and activities by providing audit, investigative, and review services; consulting and technical assistance; assessments of management functions; and the promotion of integrity, economy, efficiency and effectiveness.

Goals

The primary goal of the OIG is to provide independent and objective information in a timely manner to assist the State Chief Financial Officer and Department staff in fulfilling their duties and responsibilities. To accomplish our mission the following goals are established:

- Perform quality audits, investigations, reviews, and other services in accordance with professional standards, and, where applicable, federal and state rules and regulations;
- Use available resources in the most effective and efficient manner; and
- Perform audits, investigations, reviews, and other services in a timely manner.

Responsibilities

The OIG is located in the Bloxham Annex Building A. As indicated on the Organization Chart on page i, the OIG has a staff of eight. Besides the Inspector General, the OIG includes an Administrative Assistant; four audit staff, and two investigative staff.

The major responsibilities of the OIG include investigations, audits, reviews, consulting and technical assistance activities, and other activities. These activities are described in the following sections:

Investigations

Section 20.055, Florida Statutes, states that investigations are designed to detect, deter, prevent, and eradicate fraud, waste, mismanagement, misconduct, and other abuses in state government. Accordingly, the OIG performs the following duties:

Mission, Goals, and Responsibilities

- Review and investigate complaints and allegations regarding Department staff and operations to include internal affairs investigations of sworn law enforcement officers in the Divisions of Insurance Fraud and the State Fire Marshal;
- Assist the Department's Bureau of Personnel with investigations involving sexual harassment and discrimination allegations;
- Report to the Florida Department of Law Enforcement or other law enforcement agencies, as appropriate, whenever the OIG has reasonable grounds to believe there has been a violation of criminal law;
- Conduct investigations and other inquiries free of actual or perceived impairment to the independence of the OIG. This includes freedom from any interference with investigations and timely access to records and other sources of information; and
- Submit in a timely fashion, final reports on investigations conducted by the OIG to the State Chief Financial Officer.

Audits

As provided by Section 20.055(5)(a), Florida Statutes, audits are conducted in accordance with the current Standards for the Professional Practice of Internal Auditing and subsequent Internal Auditing Standards or Statements of Internal Auditing Standards published by The Institute of Internal Auditors, Inc.

Audits are independent appraisals designed to examine and evaluate the Department's activities, functions, and programs as a service to the Department. An inherent objective of most audits is to review and evaluate internal controls necessary to ensure the fiscal accountability of the Department. The performance of internal audits assists Department staff in the effective discharge of their duties and responsibilities, and an evaluation of the adequacy of internal controls helps to ensure the integrity and fiscal accountability of the Department.

Reviews

Reviews are designed to evaluate and/or assess the effectiveness and efficiency of a Department program or operation. Reviews may also be performed to evaluate a process or to provide limited assurances regarding internal controls. Reviews may be performed in accordance with the Standards for the Professional Practice of Internal Auditing; however, depending upon the project, a review does not usually require the level of extensive testing or document detail. Due to the lesser

Mission, Goals, and Responsibilities

degree of testing, reviews are performed within a shorter timeframe than an audit.

Consulting and Technical Assistance (CTAs)

CTAs are designed to provide assistance to Department staff and operations. Examples include corresponding with the Auditor General and the Office of Program Performance and Government Accountability, addressing letters of complaint received from consumers and redirecting them within the Department, public records requests, and risk assessments of Department operations. CTAs also include projects where work is performed, but it does not rise to the level of an audit, investigation or review.

Other Activities

- The OIG responds to the Joint Legislative Auditing Committee concerning the six-month follow-up of findings and recommendations included in Auditor General reports.
- Review and investigate complaints and/or allegations received from the Chief Inspector General of the Office of the Governor.
- Pursuant to the Department's Administrative Policies and Procedures, Section 5-27, employees are required to notify the OIG in a written report if they were arrested, incarcerated, or charged with a violation of criminal law. In addition, the employee is required to file a written report to the OIG regarding the disposition of an arrest, incarceration, and/or criminal charge.

PROJECTS

For fiscal year 2002/2003, refer to Exhibit B for a month-to-month schedule of different projects opened and closed.

Investigations

During the reporting period there were forty-eight investigations opened and forty-nine investigations completed. Of the forty-nine investigations completed, thirteen were internal affairs' investigations of sworn law enforcement officers. Refer to Exhibit A under "Investigations" for a summary listing.

Audits

During the reporting period there were three audits opened and two audits completed. We also performed follow-ups of previous audits completed.

1. An Audit of the Fire and Arson Laboratory, project #01/02-02A, was issued on December 31, 2002. The following was noted in the report:
 - Evidence is transported and handled appropriately.
 - The Laboratory Building appears adequately secured against intrusion or destruction.
 - There is no written authoritative policy or rule regarding the destruction of evidence.
 - Important information, provided on evidence submission forms, is sometimes incomplete or incorrect.
 - Investigators do not always receive timely feedback from the Fire Lab to correct mistakes made during the collection of evidence.
 - The Fire Lab does not have formal policies and procedures for resolving disputes in the interpretation of evidence.
 - Long-term evidence is stored in a warehouse-like room without adequate, safe access.
2. An Audit of Purchasing Card Transactions in the Former Department of Banking and Finance, covering the period July 1, 2002 through December 31, 2002, project #02/03-3A, and issued June 23, 2003. The following was noted in the report:

Projects

- Single purchase transaction limits for some cardholders had not been approved at the proper level.
 - Documentation that explains the need and/or use of items purchased needs to be more complete in some cases.
 - Receipts for some purchases were not signed as required.
 - There was no documented proof that quotations were obtained for purchases over \$1,000.
 - No instances of fraud or abuse were found.
3. Two audits, Workers' Compensation Penalty Assessments, project #02/03-02A, and Purchasing Card Transactions in the Former Department of Insurance, project #02/03-01A, were in progress and near completion at the issuance of the Annual Report.

Follow-ups:

1. An Audit of the Department's Computer Network Security, project #01-01A, was issued on December 5, 2001. The report included nine findings and recommendations for improvement. We performed a follow-up on the status of the nine recommendations, project # 02/03-03 CTA, that was completed August 9, 2002. We found our recommendations were implemented.
2. An Audit of the Fire and Arson Laboratory, project #02/02-02A, issued December 31, 2002. We performed a follow-up of the report findings and recommendations for improvement, project #02/03-93 CTA. We found that management has addressed all findings.

Reviews

During the reporting period there were two reviews opened and four reviews completed.

1. A Review of Document Processing for Public Records Requests, project #02-03-OIR, was issued September 30, 2002. The following was noted in the report:
 - The document processing function is not organized for efficiency or effectiveness.

Projects

- Records maintained were inadequate to accurately track payments received, document requests received, and document copies provided.
 - Employees often do not charge fees in the manner required by Florida Statutes and Department Rules.
 - Invoices are not uniquely identifiable and can be easily altered to conceal illegal activity.
 - Procedures for the receipt of money through the mail are inadequate to prevent errors or irregularities.
 - Procedures over the handling of money received for document viewing are not strict enough to prevent errors or irregularities.
 - There is not reconciliation between amounts shown as received on the tracking system and actual receipts deposited in the Bureau of Financial Services.
2. A Review of the Check Cashing Services Section, project #01/02-05R, was issued on October 3, 2002. The following was noted in the report:
- Physical security systems were not adequate to reasonably safeguard trust fund money.
 - Tests of alarm systems conducted by Capitol Police revealed that the only alarm system used during work hours, the panic buttons, were not functioning.
 - Keypad door lock codes were not scheduled to be changed periodically.
 - Security cameras were not positioned to adequately capture the image of the customer's face while transacting at the check-cashing window.
 - Facial images that were captured on camera lacked the clarity necessary to adequately reconstruct the customer's actual image.
 - Videotaped recordings were not properly safeguarded.
 - Check cashing staff did not always restrict entry while monies were unsecured.
 - Secured room and cash cages were not fire safe.

Due to the sensitive nature of our findings and recommendations we performed a follow-up of the status of management's corrective actions, if any. Our follow-up, project #02/03-78CTA, was completed August 5, 2003.

Projects

We found that management had addressed all findings and had made significant improvements.

3. A Review of Evidence Procedures in the Division of State Fire Marshal, project #01/02-04R, was issued on December 31, 2002. The following was noted:
 - Procedures in place in the Northeast Region (Jacksonville) appear to be adequate.
 - In the North Central Region (Orlando) evidence lockers should be separated from the storage of other items within the evidence room if an adequate amount of room can be provided.
 - In the Southeast Region (Plantation) a separate evidence room is not maintained, and access to evidence is not limited.
 - In the Southwest Region (Ft. Myers) evidence lockers should be separated from the storage of other items within the evidence room if an adequate amount of room can be provided.
 - In the South Central Region (Tampa) the procedures in place appear to be adequate.
4. A Review of Workers' Compensation Penalty Assessments, project #02/03-02R. Shortly after completing preliminary review and research, the Inspector General closed the project and changed the focus to that of an audit.

Consulting and Technical Assistance

During the reporting period there were ninety-seven CTAs opened and eighty-nine CTAs completed. Refer to Exhibit A under "Consulting and Technical Assistance" for a summary listing.

Other Activities

During the reporting period, staff of the OIG spent time on two administrative projects. Refer to Exhibit A under "Administrative" for a summary listing.

SIGNIFICANT EVENTS

During the reporting period the following significant events occurred:

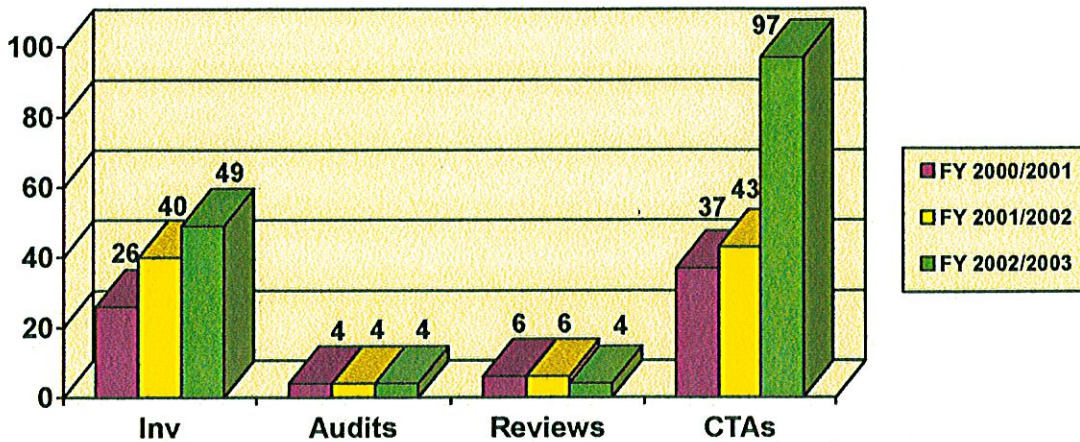
- Beginning in May 2002 and ending in July 2002, the Inspector General participated in a whistle-blower investigation of the State Board of Administration. Also participating were representatives from the Governor's Chief Inspector General and a representative from the Department of Banking and Finance's Office of Inspector General.
- Effective July 1, 2002, the Division of Workers' Compensation was transferred to the Department from the former Department of Labor and Employment Security.
- In October 2002 and April 2003, the Office's Manual of Operating Policies and Procedures were revised, updated and issued to staff.
- On January 7, 2003, the former Department of Insurance and the Department of Banking and Finance merged into the new Department of Financial Services. As a result, the two offices of Inspectors General also merged into one office. This merger required a great deal of time dealing with transition, policies and procedures, and personnel.

After the reporting period, but before the issuance of the Annual Report, the following notable events occurred:

- In August 2003, the Inspector General graduated from the Pat Thomas Law Enforcement Academy and subsequently passed a State Certification Law Enforcement Exam.
- In August 2003, the Inspector General was appointed by the State Chief Financial Officer as a member of the Audit Committee for the State Board of Administration.

PROJECT ANALYSIS

The following chart shows a comparison of the number of projects worked for the last three fiscal years.



During the last fiscal year staff of the OIG also worked on two administrative projects: revision of the OIG Manual of Policies and Procedures, and the transition of the Office of the Inspector General due to merger of the former Departments of Insurance, and Banking and Finance into the Department of Financial Services.

SIGNIFICANT ACTIVITIES

Performance Measures

During the reporting period the OIG did not perform any activities related to the development, assessment, and validation of performance measures. Activities related to Department performance measures were reviewed and completed in the 2000/2001 fiscal year. Additional work on performance measures will be performed as a result of the January 7, 2003 creation of the Department of Financial Services under the direction of the State's Chief Financial Officer.

Significant Abuses and Deficiencies

During the current reporting period there were no significant abuses and/or deficiencies.

Prior Significant Recommendations

In our previous Annual Report for fiscal year 2001-2002 we identified that several recommendations were made related to our audit of the Department's Computer Network Security. In our follow-up review we found management has implemented most of the recommendations.