

September 28, 2004

**FLORIDA
DEPARTMENT OF FINANCIAL SERVICES
ANNUAL REPORT
FISCAL YEAR 2003-2004**

OFFICE OF INSPECTOR GENERAL

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



FLORIDA
DEPARTMENT OF
FINANCIAL SERVICES

TOM GALLAGHER
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

September 28, 2004

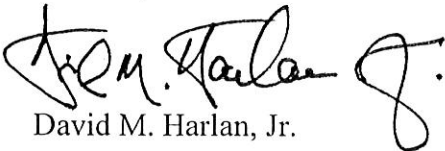
The Honorable Tom Gallagher
Chief Financial Officer
The Capitol, PL-11
Tallahassee, Florida 32399

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,



David M. Harlan, Jr.

cc: Paul Mitchell

Attachment

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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 reporting 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 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 and primary goal the following goals are established:

- Perform quality audits, investigations, reviews, and other services in accordance with professional standards, and, where applicable, federal and state laws, 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 Management 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.
- The Inspector General and the OIG's two investigative staff are graduates of Florida Law Enforcement Basic Recruit Training Programs offered at a Florida Criminal Justice Academy. In addition, the three OIG staff have passed the State Law Enforcement Exam and although "certifiable" do not presently occupy sworn law enforcement officer positions.

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.

Mission, Goals, and Responsibilities**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 degree of testing, reviews are performed within a shorter timeframe than an audits.

Consulting and Technical Assistance (CTAs)

CTAs are designed to provide assistance to Department staff and programs. 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.
- The Inspector General attends the Department's Action Report Meeting (every three weeks). At the meeting, OIG investigations of Bureau of Personnel Management referrals are discussed as well as other personnel actions.
- The Inspector General is a primary member of the Department's Computer Security Incident Response Team (CSIRT) and attends bi-weekly meetings. The CSIRT is responsible for establishing policy and

Mission, Goals, and Responsibilities

procedures, educating Department staff, and investigating and reporting computer security incidents.

PROJECTS

For fiscal year 2003/2004, refer to Exhibit B for a month-to-month schedule of different projects opened and closed.

Investigations

During the reporting period there were thirty-five investigations opened and thirty-six investigations completed. Of the thirty-six investigations completed, twelve 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 four audits opened and three audits completed. We also performed follow-ups of previous audits completed.

1. An Audit of the Penalty Assessment Section (administered by the Division of Workers' Compensation), project #02/03-02A and dated January 27, 2004.
 - The report included seven separate findings and recommendations. However, in accordance with Section 282.318, Florida Statutes, the report is exempt from the provisions of the public records law in Chapter 119, Florida Statutes.
2. A Performance Audit of the Bureau of Unclaimed Property, Accounts Receivable Section, (administered by the Division of Accounting & Auditing), project #03/04-01A, and dated May 7, 2004.
 - The report included six separate findings and recommendations. However, in accordance with Section 282.318, Florida Statutes, the report is exempt from the provisions of the public records law in Chapter 119, Florida Statutes.
3. An Audit of Performance Based Budgeting Measures – Bureau of Unclaimed Property, (administered by the Division of Accounting & Auditing), project #03/04-02A, dated May 19, 2004. The following was noted in the report:

Projects

- The Bureau has developed PB² measures and is monitoring the measures on a regular basis.
 - The Bureau has developed definitions for the appropriate measures in accordance with PB² guidelines.
 - The data source and definitions for the established measures needs to be included in future Legislative Budget Requests.
 - The Bureau should maintain detailed supporting documentation on the calculation of reported measures.
4. One audit, Workers' Compensation Labor Statistics (Federal Grant), project #03/04-03A, was in progress and near completion at the issuance of the Annual Report.

Follow-ups:

1. An Audit of the Penalty Assessment Section, project #02/03-03A, dated January 27, 2004. We performed a follow-up of the report findings and recommendations for improvement, project #04/05-02 CTA. We found that management has addressed all findings.

Reviews

During the reporting period there was one review opened and one review completed.

1. A Review of the Bureau of Financial Services, Cash Receipts Office – Accounting Function, (administered by the Division of Administration), project #03-04-01R, was issued May 14, 2004.
 - The report included eight separate findings and recommendations. However, in accordance with Section 282.318, Florida Statutes, the report is exempt from the provisions of the public records law in Chapter 119, Florida Statutes.

Consulting and Technical Assistance

During the reporting period there were 113 CTAs opened and 114 CTAs completed. Refer to Exhibit A under “Consulting and Technical Assistance” for a summary listing.

SIGNIFICANT EVENTS

During the reporting period the following significant events occurred:

- In August 2003, the Inspector General graduated from the Pat Thomas Law Enforcement Academy and subsequently passed the 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.

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

- In August 2004, the Chief Financial Officer authorized the Inspector General to authorize and issue subpoenas under Seal pursuant to Section 17.05, Florida Statutes.

PROFESSIONAL DEVELOPMENT

Section 20.055, Florida Statutes, requires the OIG to conduct audits according to professional auditing standards. Professional standards issued by the Institute of Internal Auditors, Inc., requires internal auditors to be responsible for continuing their education in order to maintain their proficiency. Professional Standards for the Governor's Council on Integrity and Efficiency issued by the Office of the Governor for the State of Florida provides training and professional development should be a continuing process.

The OIG has a policy whereby audit staff will receive 80 hours of continuing education over a two calendar year period with no less than 20 hours in any given calendar year. Investigative staff will receive a minimum of 40 hours of continuing education over a two calendar year period with no less than 20 hours in any given calendar year. Professional standards and policy initiatives are designed to promote competent trained staff and to ensure their knowledge, skills, and abilities are current. The Office had the following training, professional certifications, advanced degrees, etc.:

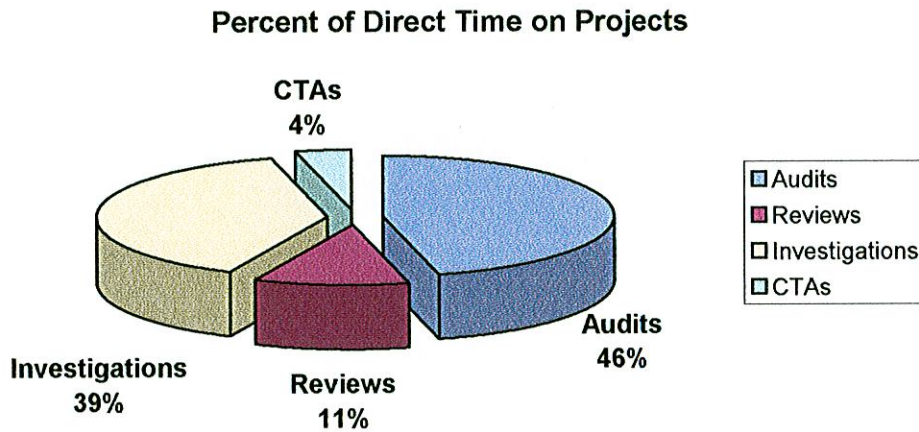
STAFF	TRAINING HOURS	PROFESSIONAL CERTIFICATIONS/ ADVANCED DEGREES	OTHER
Coley Campbell	51	CIGI	Notary
Gilda Goodman (1)	125		Notary
David Harlan	195	CPA, CIG	Notary
Cecil Jenkins (2)	23	CIA	
Patti Lee (3)	8	MBA	
Bob Metty (4)	0	MS, Doctorate of Education	
Sally Moniz (5)	0		

CIA – Certified Internal Auditor
 CIG – Certified Inspector General
 CIGI – Certified Inspector General Investigator
 CPA – Certified Public Accountant
 MBA – Masters of Business Administration
 MS – Masters of Science

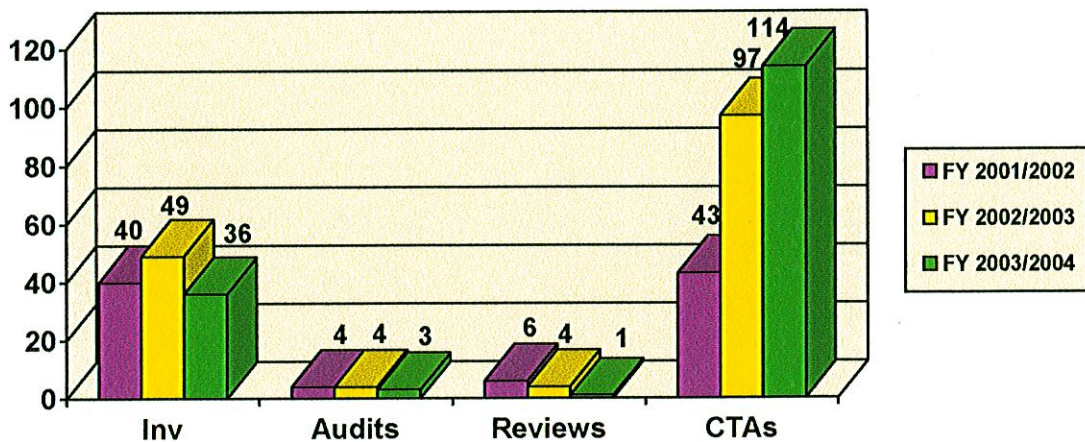
(1) Hired 2/9/2004
 (2) Hired 11/3/2003
 (3) Hired 9/23/2003
 (4) Hired 4/12/2004
 (5) Hired 8/2/2004

PROJECT ANALYSIS

The following chart shows the time distribution of staff on assigned projects. The chart does not include administrative time performing miscellaneous office functions, leave, holidays, and professional training. It does include time spent performing investigations, audits, reviews, and consulting and technical assistance projects.



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



SIGNIFICANT ACTIVITIES

Performance Measures

During the reporting period the OIG conducted an audit of the performance measures in the Division of Accounting and Auditing, Bureau of Unclaimed Property. On June 22-23, 2004, the Inspector General attended a Department Management Retreat and the main topic of discussion was developing meaningful performance measures. Additional work on performance measures will be performed as a result.

The OIG's Work Plan for fiscal years 2004/2005 and 2005/2006, dated July 26, 2004, provides for audits of performance measures in various divisions.

Significant Abuses and Deficiencies

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