

August 1, 2005

FLORIDA
DEPARTMENT OF FINANCIAL SERVICES
ANNUAL REPORT
FISCAL YEAR 2004-2005

OFFICE OF THE INSPECTOR GENERAL

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



FLORIDA
DEPARTMENT OF
FINANCIAL SERVICES

TOM GALLAGHER
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

August 1, 2005

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: Lisa Miller

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 nine. Besides the Inspector General, the OIG includes an Administrative Assistant; three audit staff, two investigative staff, a Management Review Specialist, and an Other Personal Services employee.

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 Training 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 International 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 International 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 audits.

Consulting and Technical Assistance (CTAs)

CTAs are designed to provide assistance to Department staff and programs. Examples include coordinating the activities of the Auditor General and the Office of Program Performance and Government Accountability in the Department, addressing complaints received from consumers and redirecting them within the Department, public records requests, and risk assessments. 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 monthly

MISSION, GOALS, AND RESPONSIBILITIES

meetings. The CSIRT is responsible for establishing policy and procedures, educating Department staff, and reporting and investigating computer security incidents.

- On a monthly basis and beginning April 2005, the Inspector General makes a presentation to new employees of the Department and the Offices of Insurance Regulation and Financial Regulation regarding information on the duties and responsibilities of the OIG and CSIRT.
- Beginning with the June/July 2005 Department newsletter, "Employee Message," the Inspector General has a column entitled "Inspector General Corner" where topics of interest and frequently asked questions for employees are discussed.

The topic discussed in the June/July 2005 issue was the requirements of Department Administrative Policy & Procedures 5-27 entitled, "Reporting of Arrest, Incarceration or Charge." In addition, frequently asked questions relating to the proper form for complaints and where complaints should be sent were discussed.

- The Inspector General periodically issues "IG Alerts" regarding important topics for Department employees. In May 2005, an IG Alert was issued to Department employees regarding the appropriate use of their State computer and the Department's Administrative Policy and Procedures 4-4 entitled, "Computer Use."
- In 2003, the State Chief Financial Officer appointed the Inspector General as a member of the Audit Committee for the State Board of Administration. The Committee meets on a quarterly basis and during the reporting period the Inspector General was the Vice-Chair of the Committee.

PROJECTS

For fiscal year 2004/2005, refer to Exhibit B for a schedule of different projects opened and closed.

Investigations

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

A breakdown of the different types of investigations completed during the year are as follows:

TYPE	NUMBER	PERCENT OF TOTAL
Non-Law Enforcement	31	59.62
Law Enforcement	10	19.23
AP&P 5-24 Referrals	7	13.46
AP&P 5-27 Notifications	4	7.69
Total	52	100.00

Audits

During the reporting period there were two audits opened and three audits completed. We also performed a follow-up of one audit previously completed.

1. A Performance Audit of the Census of Fatal Occupational Injuries (CFOI)/ Occupational Safety and Health Survey Federal Grant Program (administered by the Division of Workers' Compensation), project #03/04-03A and dated August 24, 2004. The report included one finding and recommendation. The following was noted in the report:
 - We found the completed OSH surveys returned to the Department contained confidential information and were not being adequately secured from unauthorized access.
 - A response rate of ninety-eight percent was achieved for the 2002 OSH survey. Florida's response rate exceeded the average response rate of the southern USDOL region by two percent and resulted in boosting the region's overall average to ninety-six percent. As a result, the United States Department of Labor, Bureau of Labor Statistics, commended program staff for their "outstanding" work.

PROJECTS

- OSH program staff members achieve the high response rate by functioning as a mission-oriented, customer-driven team. Duties are delegated by area of expertise to maximize efficiency and program staff phone non-responders, and assist them with survey completion.
 - The CFOI is completed using multiple sources that helps ensure that all on-the-job fatalities are reported.
 - The cooperative agreement was closed out using the appropriate forms required by the federal government including the Financial Status Report and the Financial Cash Transaction Report.
 - The estimated cost of this program was \$243,760. This consisted of \$121,880 in Federal dollars and a State match of \$121,880. The program was able to accomplish its goals at a cost of \$235,434. This amounted to a total savings of \$8,327 less than estimated to provide the deliverables required in the agreement.
2. An Audit of the Workers' Compensation Exemption Process (administered by the Division of Workers' Compensation), project #04/05-01A, and dated May 5, 2005.
- The report included several 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 the Division of Treasury, Check Cashing Facility (administered by the Division of Treasury), project #04/05-02A, dated April 27, 2005. The following was noted in the report:
- Some security upgrades prompted by a prior OIG review have been implemented;
 - The Division Director has actively sought assistance to improve the Facility's processes.
 - Monthly audits of the Facility's fund were not conducted on a surprise random basis. Importance should be given to making sure that audits continue to be independently performed and that such audits occur on different days and times where Facility staff do not have advance warning or can easily determine when the audits will occur.

PROJECTS

- Policies and procedures should be revised to require the auditor to count all Facility Funds and reconcile the bank balance on the imprest fund report for the day of the audit. The recommendation to count all Facility funds during the audit is contingent upon a reduction of Facility funds as discussed and recommended in the report.
- The auditor should seal the cashier boxes of absent employees and count them the next business day or immediately upon the return of the employee to work.
- The OIG will perform at least annually, a surprise cash count and a bank reconciliation of the Facility.
- Any unidentified overage or shortage in excess of \$100, or any identified theft should be reported to the OIG immediately.
- The Division should perform a cash and stamp usage study to determine a minimum and maximum amount of cash and stamp inventory levels to maintain at the Facility. The goal being to reduce the amount of cash and stamps maintained in teller boxes. This reduction will allow the auditor, the Facility supervisor and tellers to count all of the teller boxes and the Master Cage in a timely manner as well as provide a greater assurance as to the accuracy of funds.
- Treasury should establish policies and procedures concerning the purchase, sale, and inventory of postage stamps.
- Treasury should reduce the variety of stamps maintained in their inventory.
- Treasury should upgrade the video surveillance system possibly to a digital format that will enable clear video using all six cameras, which will give a more complete video coverage of the Facility.
- Treasury should establish policies and procedures that require that any time a teller box is opened or cash is counted it is in view of a camera recording the transaction.
- We recommend that the bank reconciliations be conducted in a timely manner and on a monthly basis. The reconciliation should be performed by an individual independent of the Facility.
- Facility policies and procedures should be revised to include coverage of the bank reconciliation process to include, but not necessarily limited to: proper form of documenting the reconciliation, when the reconciliations

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are to be conducted; who performs the reconciliations, and the procedure(s) to use if differences are found.

Follow-up:

1. An Audit of the Bureau of Unclaimed Property – Accounts Receivable (administered by the Division of Accounting and Auditing), project #03/04-01A, dated May 7, 2004. We performed a follow-up of the report findings and recommendations for improvement, project #04/05-68 CTA. We found that management has addressed all findings.

Reviews

During the reporting period there was seven reviews opened and five reviews completed.

1. A Review of Travel Expenditures – Accounting Function (administered by the Division of Administration), project #04-05-01R, report was issued January 31, 2005.
 - Expenditures were reviewed and analyzed for fiscal year 2003-2004 to include expenditures by: Executive and Division offices; Division/Entity; types of travel (overall); In-State Travel; Out-of-State Travel; Minor Travel; Top 25 Travel by Employees; and Travel Funding Sources.
2. A Review of Unclaimed Property – Locator Forms, (administered by the Division of Accounting and Auditing), project #04/05-02R, completed December 16, 2004.
 - Form 166 claims were taking about twenty fewer days to process, on average, than all other types of claims. No significant difference was noted between and among any of the other types of claims, whether submitted by a representative, owner, heir or holder. However, this can be explained by the fact that Form 166 claims can be processed by every staff member and a lower volume of Form 166 are received. No claim is assigned a priority because of the color of the paper it is printed on or the nature of the claims. Time and second receipt are the only prioritizing factors.
3. A Review of Missing Unemployment Compensation Warrant Stock, (administered by the Division of Information Systems), project #04/05-03R, completed January 26, 2005.

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- During our site review of the Data Center, we found that it operated under a controlled environment.
 - Key card access is restricted to a limited number of employees having key card access.
 - All visitors are required to sign in, wear a visitor badge, and only allowed access when properly supervised.
 - The warrant stock is stored in a vault, within the Data Center, only accessible by a key.
 - Only personnel assigned to the area are granted access to the vault.
 - The warrant stock does not contain any information such as bank routing numbers, State Seat, or an authorized signature, necessary for turning it into a negotiable instrument.
 - The employee that wrote down the warrant control number on the Warrant Control Sheet did not verify that the warrant control number of the next warrant matched the ending number on the batch that was run that December 10, 2004.
 - Since the incident, new procedures have been implemented. After verifying the warrant run control sheets from the previous day and night and prior to releasing the warrants, the ending warrant number of each warrant run is checked against the Warrant Run Control Sheet. The numbers on the control sheets are then checked against the ending audit numbers from the previous day and against the new warrant stock, stored in the vault, to verify that the next warrant control number is also consecutive to the last warrant released to Transmittal. Now not only does the person that ran the batch verify the control numbers, but a second person will check and sign off on the sheet before the warrants are released to AWI. Since the Data Center has revised its procedures for handling warrant stock, we believe the chance of this type of incident recurring in the future has been reduced.
4. A Review of the Bureau of Consumer Outreach & Education, Division of Consumer Services, 2004 Hurricane Relief Hours, project #04/05-04R, report dated May 25, 2005.
- The report provided management with information and data regarding relief hours covering the period August 2004 through November 2004 by Division/Entity; relief hours by Bureau office; average relief hours

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by Bureau employees; highest Bureau employee relief hours; and compliance with the Fair Labor Standards Act.

5. A Review of the McKay Scholarship Voucher Process, project # 04/05-05R, completed February 17, 2005.
 - We determined that DFS procedures are adequate to ensure that payments are made timely, accurately, and in accordance with all applicable Florida Statutes. We did not observe any deviation from these procedures in processing the McKay voucher schedules for payment. It appears that DFS goes beyond requirements to ensure that these payments are processed timely and accurately. It appears DOE did not submit the January voucher schedules in a sufficient amount of time making it difficult to comply with Section 1002.39(6)(f), Florida Statutes.

Consulting and Technical Assistance

During the reporting period there were 128 CTAs opened and 125 CTAs completed. Refer to Exhibit A under "Consulting and Technical Assistance" for a summary listing.

A breakdown of the different CTAs completed during the year are as follows:

TYPE	NUMBER	PERCENT OF TOTAL
Public Record Requests	38	30.4
Miscellaneous (Computer Use, Bill Analysis, Phone Records, other)	20	16.0
Citizen Complaints	18	14.4
External Auditor Coordination	13	10.4
Inspector General Activities	11	8.8
Chief Inspector General Referrals	10	8.0
Insurance-Related Citizen Complaints	9	7.2
Operational Process Questions	6	4.8
Total	125	100.0

SIGNIFICANT EVENTS

During the reporting period the following significant events occurred:

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

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

- In July 2005, a peer review was performed on the OIG by the Office of the Auditor General.

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	0	CIGI	Notary
Gilda Goodman	39		Notary
David Harlan	70	CPA, CIG	Notary
Cecil Jenkins	22	CIA	
Patti Lee	68	MBA	
Bob Metty (1)	0	MS, Doctorate of Education	
Sally Moniz (2)	96		
Glenda Ostreich (3)	0	CPM	Notary

PROFESSIONAL DEVELOPMENT

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

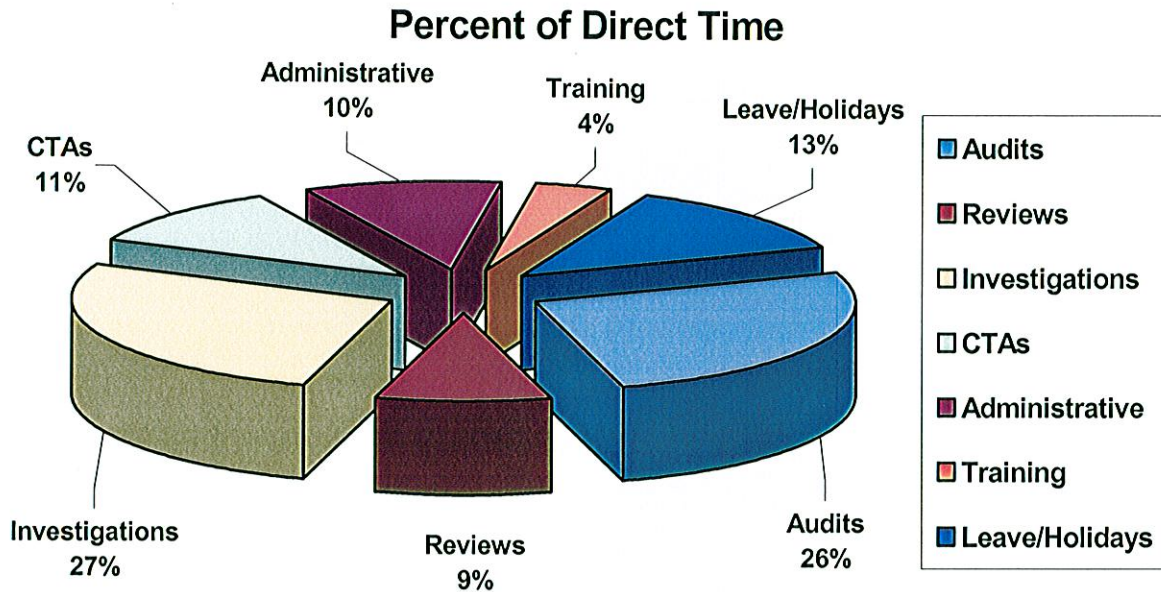
(1) Resigned 3/31/2005

(2) Hired 8/2/2004

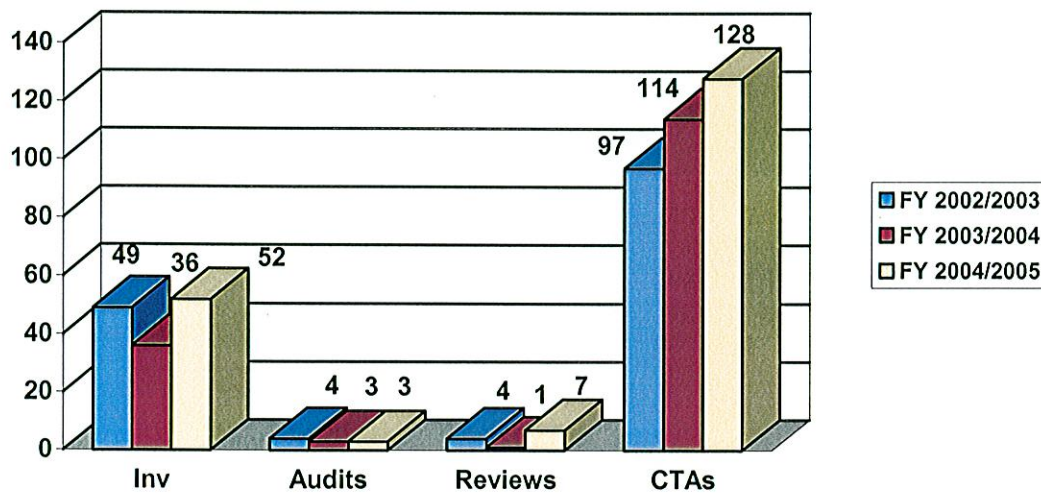
(3) Hired 6/13/2005

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

Significant Abuses and Deficiencies

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