

DEPARTMENT OF MANAGEMENT

SERVICES

OFFICE OF INSPECTOR GENERAL

ANNUAL REPORT





DEPARTMENT OF MANAGEMENT
SERVICES

**"We serve those who
serve Florida."**

JEB BUSH
Governor

Tom Lewis, Jr.
Secretary



**Office of the Inspector
General**

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September 29, 2006

Tom Lewis, Jr., Secretary
Department of Management Services
4050 Esplanade Way, Suite 235
Tallahassee, Florida 32399-0905

Dear Secretary Lewis:

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, 2006, as required by Section 20.055 (7), Florida Statutes.

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 four percent of Internal Audit's time for management assistance projects including those that may be 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. We will implement the approved Work Plan for Fiscal Year 2006-07. Thank you for your continued support.

Respectfully Submitted

/s/

Steve Rumph
Inspector General
Department of Management Services

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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.



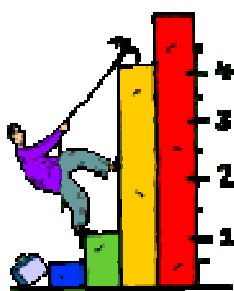
This Annual Report is presented to the Secretary to comply with statutory requirements and to provide departmental staff and interested parties with information on the Office of Inspector General's (OIG) progress in accomplishing its mission as defined by Florida law.



INTRODUCTION

Mission Statement

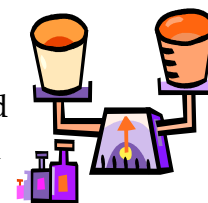
The OIG's mission is to assist in the accomplishment of the Department's overall mission to serve those who serve Florida. The OIG assists the Department in accomplishing its mission by providing independent reviews, assessments, and investigations of activities and programs.



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 and 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 accountable activities.



Department Responsibilities Are Diverse

The Department of Management Services is a customer focused agency providing effective and efficient services in order to better enable state agencies and employees to deliver the Governor's priorities to the people of Florida.

The Department serves as the administrative arm of state government. As such, the Department is responsible for:

- Consolidating the state's buying power for the purchase of commodities and services;



- Serving as the centralized authority for operations and maintenance of state-owned facilities, as well as office construction;

- Developing rules and guidelines to ensure that human resource issues including employee recruitment, promotion, and discipline are fairly and uniformly addressed and implemented;



Managing the acquisition, use, operation, maintenance and disposal of state-owned and operated aircraft, motor vehicles, watercraft and heavy equipment;

Coordinating the procurement and distribution of available federal surplus assets as a tax saving program for the state;



- Contracting and monitoring the operation and maintenance of private correctional facilities in the most effective, productive, and cost efficient manner for the citizens of the State of Florida;

- Providing a comprehensive and cost-efficient package of insurance benefits for the state workforce; and



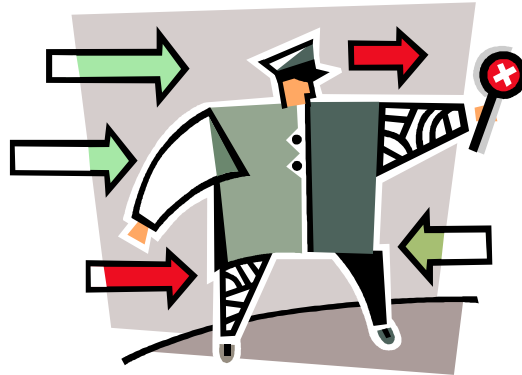
- Administering the state-wide retirement program and monitoring the actuarial soundness of local government retirement plans.

To ensure that we provide adequate coverage of the many departmental activities and adequate support to management, the OIG performs an annual risk assessment of all Department activities. This ensures that the OIG is responsive to management concerns and that those activities with the greatest risks are identified and scheduled for review.

The varied nature and scope of the Department's mission requires a unique approach by the OIG. While some agency OIG's perform reviews of the same subject matter from year to year, DMS auditors and investigators are constantly engaged in different functional areas from one review to the next. This requires a constant learning and educational process for staff members.

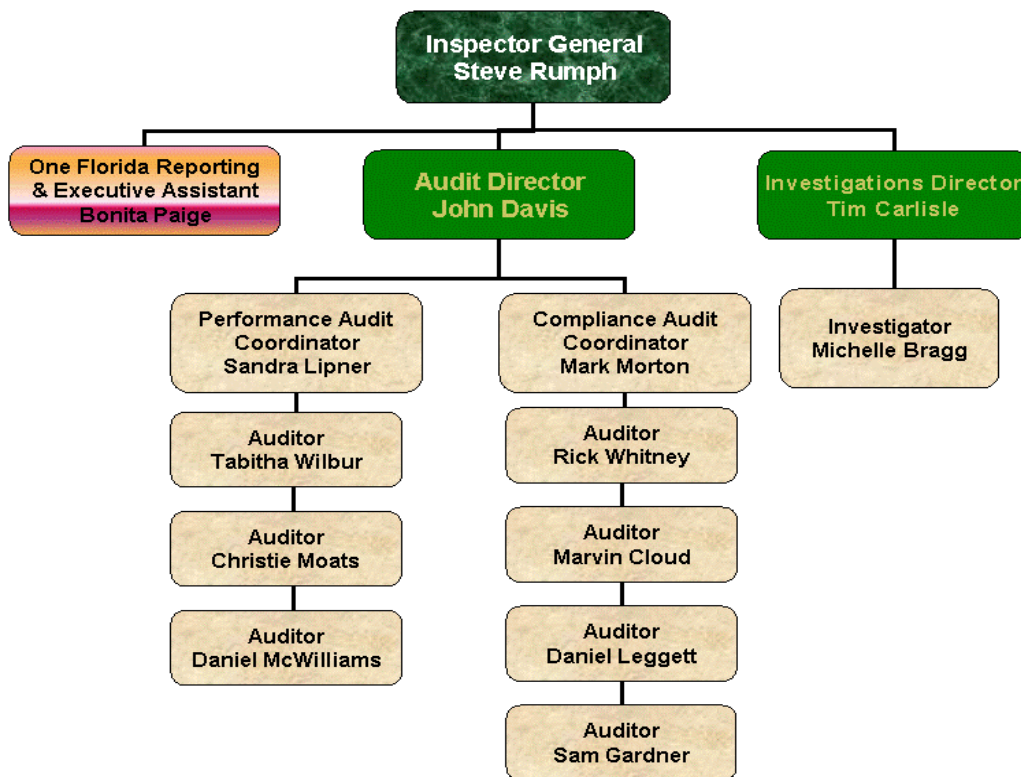


OIG Organization and Staff



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

The OIG has a staff of 14 professional/technical positions. Our organizational structure is as follows:



OIG employees have a wide range of experience in both the public and private sectors. Staff members have supervised and conducted audits or investigations at the federal, state, and local levels. The OIG staff brings backgrounds and experience in accounting, auditing, law enforcement, program evaluation, management, computer science, and communications.

OIG Staff Certifications

Professional certifications held by the staff include:

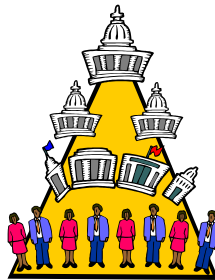
- 3 - Certified Inspectors General*
- 2 - Certified Public Accountants*
- 1 - Certified Information Systems Auditor*
- 1 - Certified Government Financial Manager*
- 2 - Certified Inspector General Investigators*
- 1 - Certified Government Auditing Professional*



Staff Affiliations

OIG staff is affiliated with the following professional organizations:

- American Institute of Certified Public Accountants
- Association of Government Accountants
- Association of Military Comptrollers
- Institute of Internal Auditors
- Southeastern Evaluation Association
- National Association of State and Local Inspectors General
- Tallahassee Chapter of the Association of Inspectors General
- The Florida Audit Forum
- Information Systems Audit and Control Association
- National Drug Enforcement Officers Association
- Governor's Council on Integrity and Efficiency

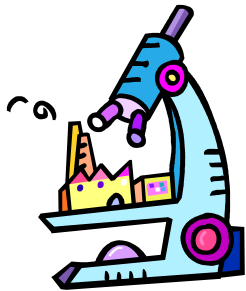


MAJOR ACTIVITIES AND FUNCTIONS



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 *International 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 Audit 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 within the agency. Some complaints are broad and address entire programs while others have a more limited scope.

Staff monitor and track all cases.

- ✚ All case dispositions are reported to the Secretary and appropriate managers.
- ✚ When allegations are sustained involving possible disciplinary action, the OIG provides the necessary facts to the Department's Bureau of Personnel Management Services, the Office of the General Counsel, and Division Managers to assist them in taking the appropriate disciplinary actions.
- ✚ Cases involving criminal activity are referred to the appropriate law enforcement agency.

ACCOMPLISHMENTS



During Fiscal Year (FY) 2005-06, the OIG accomplished workload or issued reports by functional area as follows:

Function	Number	Potential Cost Savings/Recovery/Avoidance/Questioned Costs
Compliance Audits	115	\$728,325
Internal Performance Audits	2	
Management Advisory Reviews	4	
Response Coordination	18	
Audit Follow-ups	13	
Investigations	17	
Background Inquiries	1,300	
Public Entity Crime Cases	4	

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



SUMMARY OF ACTIVITIES



A summary of the major activities of the OIG during FY 2005-06 follows:

Performance Audits

During FY 2005-06, the Internal Audit Section completed 2 performance audits with recommendations. Our reports are available online at:

http://dms.myflorida.com/dms/administration/inspector_general/publications.

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

Review of Cash and Revenue Collection Procedures (IA Report 2005-116)

Our review showed that the Department needed to improve controls over cash and revenues collections to help deter potential theft, loss, fraud, or the misuse of public



funds. Specifically, the Department's policies and procedures had not been revised since 1995 and did not reflect the Department's current organizational structure. The procedures did not address requirements regarding segregation of duties, restrictive endorsement of checks, or verification of the accuracy of petty cash accounts. Internal controls could also be strengthened by establishing a central

location for collecting payments for public records.

During the review, we noted that the Division of Fleet Management, Federal Property Assistance & Correctional Privatization had made arrangements to have vehicle auction proceeds electronically deposited. Payment by electronic means improves controls over collection procedures by removing many of the processing steps required for handling revenue receipts.

RECOMMENDATIONS

We recommended that the Division of Administration update and publish Departmental policies and procedures that require each Division to conform to accepted cash and revenue management procedures. We also recommended that payment for public records be collected at one central location and that offices that receive regular payments from vendors arrange for electronic payments.

*Review of Enterprise Information
Technology Services Contract
For SUNCOM Network
Management System
(IA Report 2006-1)*



We reviewed the existing staff augmentation contract for the operation and maintenance of the SUNCOM Network Management System (NMS) with Tybrin Corporation (Tybrin). The current contract with Tybrin is a sole source contract dated June 30, 2002. The contract, originally for a three-year period, was extended in June 2005 for an additional six months and will expire December 31, 2005.

EITS requested that the Office of Inspector General (OIG) review the contract to determine: (1) options to best ensure the continued operation and maintenance of the SUNCOM Network given that Florida Statutes prohibit further extension of the sole source contract; and (2) whether EITS is receiving the best value for the contract costs. In addition, the OIG evaluated whether the contract was procured in accordance with applicable laws and rules and whether the contract provisions adequately protect the State's interests.

RESULTS OF REVIEW

1. The current Tybrin contract was procured using a sole source exception which was justified based on questionable facts and assumptions. The sole source acquisition was based on the assumption that because Tybrin owned the source code, EITS had no right to modify the code. Therefore, EITS had no options other than to continue contracting with Tybrin for operating and maintaining the NMS. Our review of previous and current contract documentation indicates otherwise.
2. Acquisition planning was not adequate when procuring the services under the current contract. Specifically, the contract: (a) contained provisions for two, one-year renewals which did not comply with State law regarding sole source procurement; (b) did not include a transition plan in the event of contractor default or termination; and (c) contained ambiguous language regarding intellectual property (source code) which has contributed to uncertainty regarding the contract parties' rights and responsibilities. Consequently, when the current contract was executed, EITS may have inadvertently relinquished its right to modify the source code.
3. While the contract was executed and is being paid for under a staff augmentation arrangement, the contract requirements relating to modification and enhancement of the SUNCOM NMS were based on a projects basis. In addition, Tybrin staff is being used for services outside the scope of the contract. For example, Tybrin employees are involved in E911 web site maintenance. Consequently, EITS is paying about \$1.1 million annually for six full-time Tybrin employees regardless of whether the employees are working on operations and maintenance of the NMS, involved in modifications and enhancements to the NMS, or projects not related to NMS.
4. During the course of this review, we provided a copy of the draft report to the Office of General Counsel staff for their consideration concerning the justification for the sole source award of the existing contract and EITS' right to modify or adapt the source code for the SUNCOM NMS. In discussion with the OIG, the General Counsel agreed that EITS does have the right to modify the source code as necessary.



EITS OPTIONS

Based on our review, we concluded that EITS is required to compete the contract since any further extension of the contract is not permissible under State law and rule. Moreover, renewal of the contract for the operation and maintenance of the SUNCOM NMS with Tybrin does not qualify as a sole source exception under State purchasing law.

Regardless of the ambiguous language contained in the contract, it is unreasonable that EITS would be required to contract with Tybrin in perpetuity in order to maintain the SUNCOM NMS. Based on our review and reading of the previous and current contract with Tybrin, we concluded that EITS has the right to modify the source code developed by Tybrin whether it contracts with Tybrin or another contractor. However, a legal decision should preface any discussion of the type of procurement required to contract for the operation and maintenance of the SUNCOM NMS.

RECOMMENDATIONS

We recommended that EITS immediately request a legal opinion from the DMS General Counsel as to the State's right to adapt or modify the source code developed by Tybrin under the current contract. Depending on the legal opinion, EITS can then determine the type of procurement necessary to acquire operation and maintenance services for the SUNCOM NMS. Regardless of the type of procurement method used, *we recommended* that the new contract include a transition plan and clear, specific language regarding the intellectual property rights and responsibilities of the parties.

We also recommended that EITS determine whether it would be more cost effective and efficient to contract for operation and maintenance of the SUNCOM NMS separately from the requirements for enhancements and modifications to the SUNCOM NMS.

Management Advisory Services



During each year, the OIG reserves staff time to review issues or matters of concern to Department management. During FY 2005-06, the Internal Audit Section performed four reviews at the request of Department management. These reviews addressed issues such as the following:

Climate Survey (IA Report 2006-63)



The Office of Inspector General performed its 3rd annual Employee Climate Survey within the Department of Management Services for the period of July 2004 through June 2005.

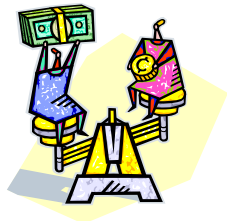
The survey results showed that in each of the 11 dimensions surveyed:

- Employees reported very little change in satisfaction levels over the previous period surveyed (July 2003 through June 2004).
- Those dimensions which were rated the lowest during the 2004 survey (as well as 2003) remained the lowest for the 2005 survey.
- One of the more significant factors noted in the 2005 survey was the increase in the percent of “no opinions” voiced across all dimensions. This could mean one of several things: (1) employees are tiring of completing the survey, which could mean that the survey is being administered too often, (2) employees are increasingly wary of voicing an opinion for fear that they can be identified or (3) employees are expressing phenomena similar to a Hawthorn Effect. Employees may have concluded that those dimensions for which they have expressed dissatisfaction since the inception of the survey will not be corrected or “positive reforms will not be introduced.”

Other reviews performed included:

- SAS 70 Review of Convergys
- Review of Convergys’ Security Procedures
- Assistance to the General Counsel concerning Private Prisons

Performance Measurement Reviews



*D*uring FY 2006-07 the OIG will perform a comprehensive review of all Department measures. The review will assist in ensuring that Department measures continue to remain valid and reliable indicators of the Department’s performance.

Compliance Audits



During FY 2005-06, the Compliance Audit Section performed 115 compliance reviews of local government participants in the State of Florida Retirement System. These 115 reviews resulted in revenue adjustments of \$728,325 to the Retirement Trust Fund. Compliance audits consisted mainly of reviews of payroll records, personnel files, and earnings records.

Compliance reviews are performed at participating entities such as:

- County Commissions
- County Property Appraisers
- County Tax Collectors
- County School Boards
- County Clerks
- County Comptrollers
- County Sheriffs
- County Supervisors of Elections, and
- Community Colleges

The Compliance Audit Section also completed five special reviews requested by management. These reviews identified payee and joint annuitant deaths from the biannual death match, the continued eligibility of payees and joint annuitants age 100 and older, terminated vested members who have reached retirement age and have not applied for retirement, and the eligibility of payees and joint annuitants living out of the country.

Response Coordination and Follow-up



During the year, we coordinated the Department's responses to 13 Auditor General, and 5 OPPAGA audit reports. These 18 reports contained 46 recommendations. We also performed follow-up reviews on 58 recommendations contained in 8 previous Auditor General Reports and one previous OPPAGA audit report.

In addition to statutorily required follow-ups, we periodically review unresolved audit recommendations. Using this process, we followed up on 17 outstanding internal and

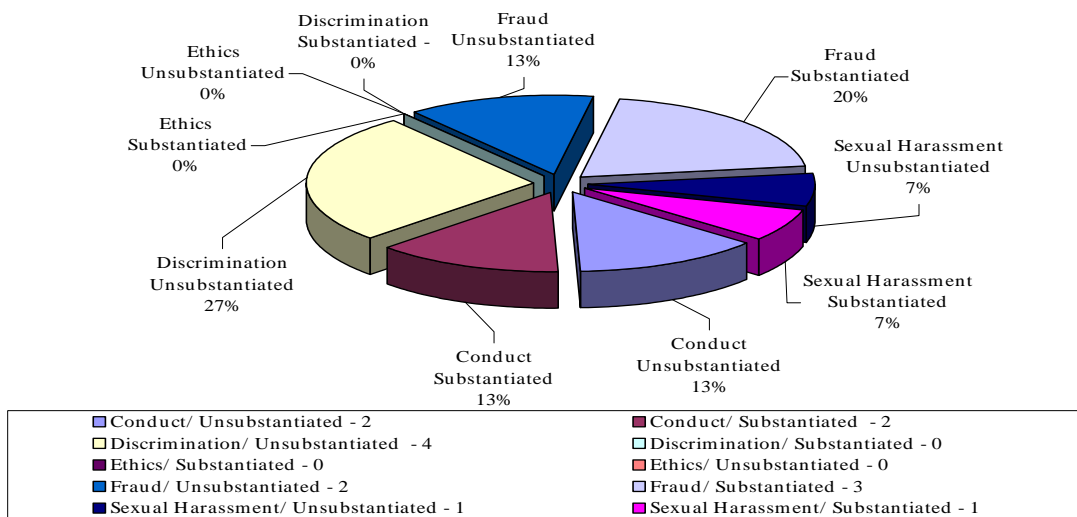
external audit recommendations, resulting in the resolution to 14 of the recommendations.

Investigations



The Investigations Section closed 167 cases during the year. Of these investigations, 150 cases were state employee background investigations and 17 cases centered mainly on employee misconduct and administrative issues. In addition to the above mentioned investigations, the Investigation section reviewed the criminal histories of 1,150 contract employees. As a result of these reviews, 84 of these contract employees were denied access to DMS facilities.

Investigative Findings



Total Investigations – 17

Total Investigative Findings – 15

CLASSIFICATIONS OF INVESTIGATIVE FINDINGS

- 1) Substantiated – Allegation supported by sufficient evidence to justify a reasonable conclusion that the actions occurred.
- 2) Unsubstantiated – Insufficient evidence available to prove or disprove allegations.

Representative examples of the 17 cases were:

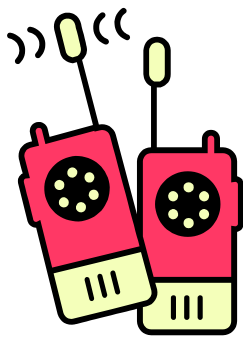
***Operating Personal Business
(II Report 2006-78)***

An investigation was conducted when a citizen was told that their Qualified Domestic Relations Order (QDRO) was filed incorrectly with the Eighth Judicial Circuit Court of Florida. The citizen explained that a company, QDRO Basics, had completed the paperwork for them. Further review of QDRO Basics, revealed that the company was potentially owned by a Division of Retirement employee. Upon review of the employee's computer, information concerning QDRO Basics was found. The employee was found to be in violation of Rule 60L-36.005(f)(2) and (3), Florida Administrative Code. The employee subsequently submitted a letter of resignation.



***Programming Hospital Radios
(II Report 2006-99)***

The Department of Health Inspector General referred a case to our office when they received a complaint from St. Anthony Hospital. The Department has an employee whose salary is funded by the Department of Health. As part of their job duties they program radios purchased with grant money. St. Anthony Hospital alleged that the employee had committed a breach of security by requesting the hospital send the radios to his home address, for his wife to program, while he was in Mississippi during Hurricane Katrina disaster relief. The hospital thought that radio frequencies were of a private nature and not a public record. This investigation did not reveal any misconduct or improper handling of state resources.



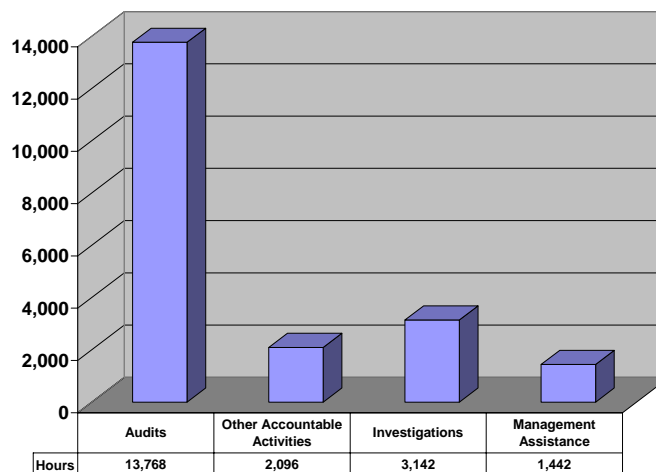
ANNUAL WORK PLAN FY 2006-2007



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 20,000 hours available for projects. 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 2006-2007



LONG TERM PLAN

FOR 2006-2007 AND 2007-2008



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 2006-2007 Annual Work Plan, approximately 25,000 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 2006-2007 as well as FY 2007-2008.

ACTIVITY	HOURS
Audit/Program Evaluations	5,874
Compliance Reviews	7,000
Investigations	3,142
Management Assistance	500
Response Coordination/Follow-up	800
Internal Process Analyses/Reporting	440
Holidays and Leave	4,512
Management and Support	942
Special Projects	280
Professional Training	576
Special Retirement Projects	894
Total Available Hours	24,960

APPENDIX A

Distribution List

William O. Monroe, Auditor General

Gary Vanlandingham, Director

Office of Program Policy Analysis and Government Accountability

Terry Shoffstall, Director

Joint Legislative Auditing Committee

Derry Harper, Chief Inspector General

Executive Office of the Governor

Kim Mills, Audit Director

Executive Office of the Governor

Nancy Tucker, Audit Manager

Office of the Auditor General

Colleen Englert, Chief of Staff

Department of Management Services

Ken Granger, Deputy Secretary

Department of Management Services

John Holley, Deputy Secretary

Department of Management Services

LeeAnn Korst, Deputy Secretary

Department of Management Services

Rebecca McCarley, Director of Legislative Affairs

Department of Management Services

Tom Clemons, Director of Administration

Department of Management Services

Debra Forbess, Director of Planning and Budget

Department of Management Services