

Florida Department
of Financial Services



Alex Sink
Chief Financial Officer

Office of Inspector General

Robert E. Clift
Inspector General

ANNUAL REPORT

FISCAL YEAR 2006-2007

*"OUR MISSION IS TO PROMOTE INTEGRITY,
ACCOUNTABILITY AND PROCESS IMPROVEMENT
IN THE DEPARTMENT OF
FINANCIAL SERVICES"*



REPRESENTING
ALEX SINK
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

September 28, 2007

The Honorable Alex Sink
Chief Financial Officer
The Capitol, PL-11
Tallahassee, Florida 32399

Dear CFO Sink:

In accordance with Section 20.055(7), Florida Statutes, I am submitting the Office of Inspector General's 2006 – 2007 Annual Report which summarizes accountability activities during the prior fiscal year.

We look forward to serving you, our Department of Financial Services colleagues and the citizens of Florida with objectivity, professionalism and integrity as we move forward into the current fiscal year.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert E. Clift".

Robert E. Clift
Inspector General

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INTRODUCTION

BACKGROUND

The Office of the Inspector General (OIG) is an integral part of the Department of Financial Services (Department). The purpose of the OIG is to provide a central point for coordination of and responsibility for activities that promote accountability, integrity, and efficiency in the Department. Section 20.055, Florida Statutes (F.S.), defines the duties and responsibilities of each inspectors general.

The Statute requires that each inspector general shall submit to the department head an annual report, not later than September 30 of each year, summarizing its activities during the preceding state fiscal year. This report includes, but is not limited to:

- A description of activities relating to the development, assessment, and validation of performance measures.
- A 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.
- A description of recommendations for corrective action made by the Inspector General during the reporting period with respect to significant problems, abuses, or deficiencies identified.
- The identification of each significant recommendation described in previous annual reports on which corrective action has not been completed.
- A summary of each audit and investigation completed during the reporting period.

This document is presented to the Chief Financial Officer in accordance with the statutory requirements and to describe how the OIG accomplishes its mission as defined by Florida Law.

MISSION STATEMENT

The mission of the Office of Inspector General is to promote integrity, accountability and process improvement in the Department.

VISION

To be key and indispensable players on the DFS team:

- **Championed by our customers;**
- **benchmarked by our counterparts; and**
- **dedicated to quality in our products and services.**

OIG RESPONSIBILITIES

The specific duties and responsibilities of the Inspector General, according to Section 20.055(2), F.S., include:

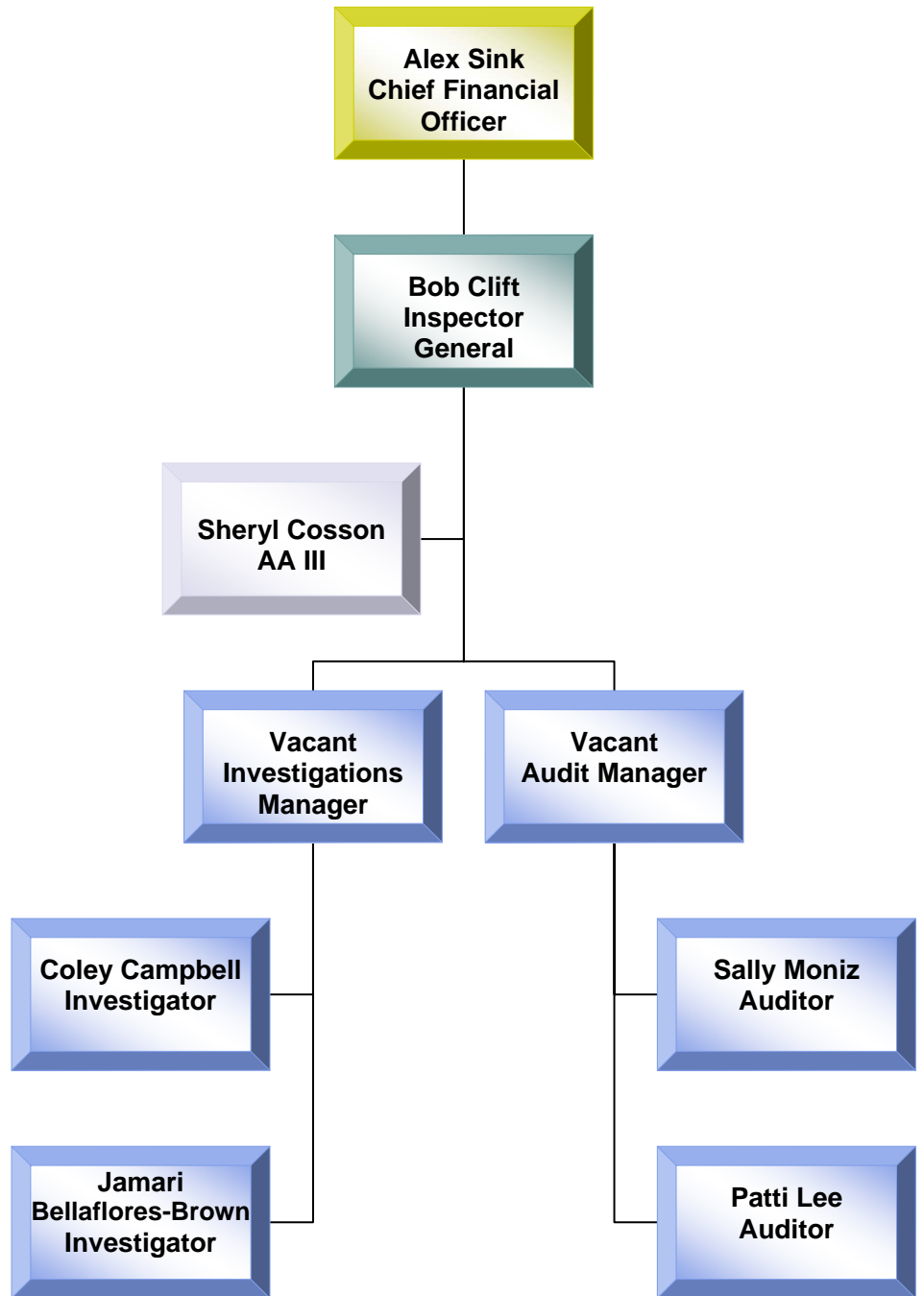
- Advising in the development of performance measures, standards, and procedures for the evaluation of state agency programs.
- Assessing the reliability and validity of the information provided by the state agency on performance measures and standards, and making recommendations for improvement, if necessary, prior to submission of those measures and standards to the Executive Office of the Governor.
- Reviewing the actions taken by the state agency to improve program performance and meet program standards and making recommendations for improvement, if necessary.
- Providing direction for, supervision and coordination of audits, investigations, and management reviews relating to the programs and operations of the state agency.
- Conducting, supervising and, or, coordinating 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.

OIG
RESPONSIBILITIES
(CONT'D.)

- Keeping the agency head informed concerning fraud, abuses, and deficiencies relating to programs and operations administered or financed by the state agency, recommended corrective action concerning fraud, abuses, and deficiencies, and report on the progress made in implementing corrective action.
- Ensuring effective coordination and cooperation between the Auditor General, federal auditors, and other governmental bodies with a view toward avoiding duplication.
- Reviewing rules relating to the programs and operations of such state agency and make recommendations concerning their impact.
- Ensuring that an appropriate balance is maintained between audit, investigative, and other accountability activities.

OIG ORGANIZATION

The Inspector General is appointed by and reports to the Chief Financial Officer. Within the OIG, there are two sections: the Audit Section and Investigation Section.



TRAINING

The International Standards for the Professional Practice of Internal Auditing and Government Auditing Standards require internal Audit Unit staff to maintain their professional proficiency through continuing education and training. Each auditor must receive at least 80 hours of continuing education every two years. This is accomplished by the professional staff attending courses and/or conferences throughout the year

The Association of Inspectors General specifies that each staff person who performs investigations, audits, inspections, evaluations, or reviews shall receive at least 40 hours of continuing professional education every two years that directly enhances the person's professional proficiency. See Exhibit F for a list of training received during the reporting period.

CERTIFICATIONS AND ADVANCED DEGREES

The Inspector General and staff bring various backgrounds of expertise to the Department. Certifications or advanced degrees held by the Inspector General and his staff during the reporting period include:

- Certified Inspector General
- Certified Public Accountant
- Certified Internal Auditor
- Certified Government Auditing Professional
- Certified Inspector General Investigator
- Masters in Business Administration
- Masters in Criminology

AFFILIATIONS

- Association of Inspectors General
- American Institute of Certified Public Accountants
- Tallahassee Chapter of the Association of Inspectors General
- Institute of Internal Auditors (IIA)
- Tallahassee Chapter of the IIA
- Florida Audit Forum
- American Institute of Certified Public Accountants

MAJOR ACTIVITIES

AUDIT SECTION FUNCTIONS

The Audit Section's mission is to function as an independent and objective assurance and consulting activity with the purpose of providing information on the adequacy and effectiveness of the Agency's system of internal controls and the quality of performance in carrying out its responsibilities. The Audit Section performs assurance engagements (Audits & Reviews), consulting engagements, management reviews and special projects for the purpose of providing recommendations and solutions to management.

AUDITS AND REVIEWS

Audits are performed in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) (i.e., "red book") published by the Institute of Internal Auditors (IIA). Audits result in written reports of findings and recommendations, including responses by management. These reports are distributed internally to the Chief Financial Officer and affected program managers, and to the Office of the Auditor General. Reviews include less formal program and compliance evaluations usually completed at management's request. See Exhibit A for a listing of relevant audits and reviews.

CONSULTING ENGAGEMENTS

Another form of assistance provided to management or staff for the purpose of improving specific program operations or processes are consulting engagements. A summary of the consulting engagements completed and in progress as of June 30, 2007, can be found in Exhibit B.

EXTERNAL AUDIT ACTIVITY

The OIG is the coordinator for external audits or reviews conducted by the Auditor General, Office of Program Policy Analysis and Government Accountability, Federal Agencies, and other governmental entities. The Audit Section coordinated seven external audits by federal and state agencies during fiscal year 2006-2007. A summary of the external audit activity for the 2006/2007 fiscal year can be found in Exhibit C.

RISK ASSESSMENT

A Risk Assessment of the Department's programs and activities is performed annually to assist in the development of the annual Work Plan. The assessment of the relative significance is accomplished by appropriate management ranking the areas of risk with the OIG using criteria developed by the audit staff. Some considerations that may represent higher risk include, but are not limited to:

- Handling of confidential records;
- Cash collection activities;
- Prior audit with significant findings;
- Time since last audit;
- Geographically disbursed operations;
- Program, operational or organizational changes.

LONG RANGE WORK PLAN

The OIG developed a Work Plan covering fiscal years 2006-2007 and 2007-2008 based on the risk assessment. The Work Plan includes activities that are to be audited or reviewed, activity schedules, budgeted hours, and assignment of staff. The Work Plan is approved by the Chief Financial Officer and provides effective coverage of the Department's programs and processes while optimizing the use of resources.

OUTSTANDING CORRECTIVE ACTIONS FROM PRIOR ANNUAL REPORTS

As of June 30, 2007, 4 corrective actions for significant recommendations described in an audit of the Workers' Compensation Compliance Penalty Process (No. #05/06-01A) remained outstanding: See Exhibit D for a description of these unresolved recommendations.

INVESTIGATION SECTION FUNCTIONS

The Investigation Section is responsible for evaluating complaints and conducting internal investigations of Department employees. These inquiries and complaints may be received from the Department of Financial Services employees, Chief Financial Officer's "Get Lean" Hotline, Legislators, other state agencies, and the general public.

Investigations are designed to deter, prevent and eradicate fraud, waste, mismanagement, misconduct and other abuses. The investigative duties and responsibilities of the Inspector General (Section 20.055, F.S.) include:

- Receiving complaints and coordinating activities of the Department as required by the Whistle-blower's Act pursuant to Sections 112.3187 - 112.31895, F.S.
- Receiving and considering the complaints which do not meet the criteria for an investigation under the Whistle-blower's Act and conducting, supervising, or coordinating such inquiries, investigations, or reviews as the Inspector General deems appropriate.
- Reporting expeditiously to the Department of Law Enforcement or other law enforcement agencies, as appropriate, whenever the Inspector General has reasonable grounds to believe there has been a violation of criminal law.
- Conducting investigations and other inquiries free of actual or perceived impairment to the independence of the Inspector General or the OIG. This includes freedom from any interference with investigations and timely access to records and other sources of information.
- Submitting in timely fashion final reports on investigations conducted by the Inspector General to the Department head, except for Whistle-blower's investigations, which are conducted and reported pursuant to Section 112.3189, F.S.

INVESTIGATIONS

The types of investigations conducted may include alleged violations of Department standards such as: conduct unbecoming a public employee; unauthorized disclosure of confidential information; theft/misuse of property, records or documents; violation of nepotism policy, and falsification of records.

During the 2006-2007 fiscal year, 17 investigations were completed. These investigations were categorized as follows:

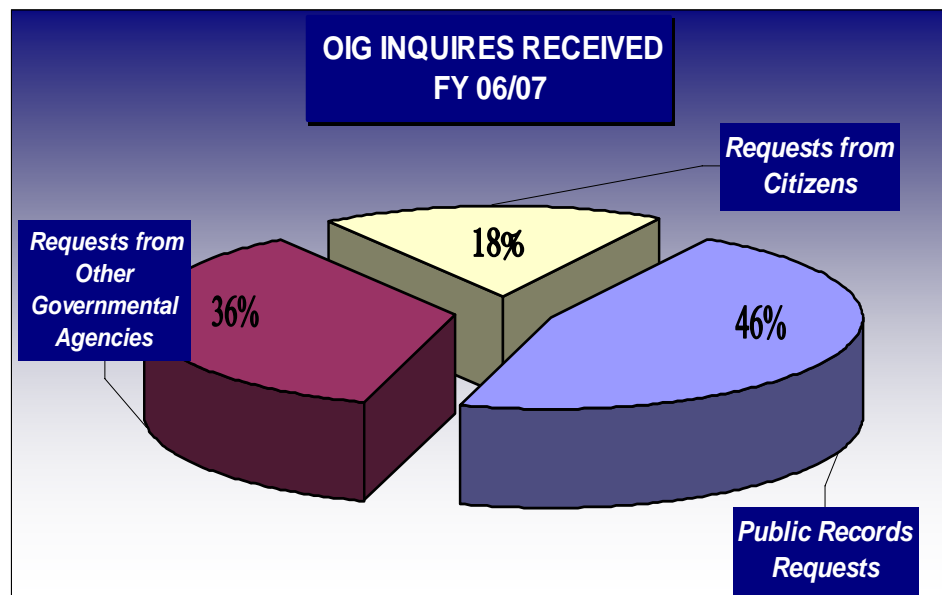
- Allegations in 7 investigations were proved;
- Allegations in 10 investigations were disproved;

A summary of these investigations can be found in Exhibit E.

OTHER INQUIRIES

During the 2006-2007 fiscal year, 28 inquiries were received and handled by the OIG. The number of inquiries received from each source is as follows:

- 13 were internal requests for OIG review of documents or emails prior to public records release
- 10 were received from other governmental agencies
- 5 were received from citizens



OTHER OIG ACTIVITIES

ACTION REPORT MEETINGS

The Inspector General attends the Department's Action Report Meeting. At the action report meeting, the status of disciplinary actions pending against agency employees is coordinated.

NEW EMPLOYEE ORIENTATION

The Inspector General makes a presentation to new employees of the Department (and the Offices of Insurance Regulation and Financial Regulation) about the role of the Inspector General and ethical conduct as well as encouraging new employees to help detect frauds or misconducts impacting the agency.

COMPUTER SECURITY INCIDENT RESPONSE TEAM (CSIRT)

The CSIRT establishes the roles, responsibilities and procedures for responding to computer security incidents. The CSIRT is a proactive safeguard for the computing resources and systems of the Department. The OIG functions as a support team member of CSIRT.

EXHIBIT A

COMPLETED AUDITS AND REVIEWS

Purchasing Card Process Audit

■ **Project No. 06/07-02**

The OIG conducted an audit of the Department's Purchasing Card (P-Card) program. The audit covered the identification and evaluation of internal controls within the program, as well as compliance with applicable laws and regulations for the period July 1, 2005, through September 30, 2006. The findings and recommendations for the P-Card Audit are summarized below:

Finding: P-Card transactions lacked adequate supporting documentation.

Recommendation: Establish policies and procedures

Finding: Documentation to support purchases was not obtained where required.

Recommendation: Establish policies and procedures

Finding: Policies and Procedures do not provide adequate guidance for purchases

Recommendation: Revise Division of Administration P-Card procedures

Finding: Approvers and reconcilers were not adequately trained

Recommendation: Develop and implement a training program

Finding: Increases in single transaction limits were not approved

Recommendation: Spending limits over \$2500 should only be allowed with approval

Finding: Policies do not provide adequate guidance for purchases

Recommendation: The Department's Administrative Policy & Procedures Manual should be reviewed and updated

Review of the Cash on Hand at the Division of Treasury's Check Cashing Facility

■ Project No. 06/07-05

The OIG conducted an unannounced audit of the cash on hand as of March 28, 2007, at the Division of Treasury's Check Cashing Facility. The Check Cashing Facility is a service required by Section 17.53, Florida Statutes. It primarily serves state workers and elected officials headquartered in the Capitol, allowing for the convenient cashing of checks and recently, the purchase of stamps as well. The facility has three employees. A total fund balance of \$300,000 is maintained by the facility.

The resulting balances are shown below:

■ Cash on Hand	\$99,639.04
■ Postage Stamps on hand	1,042.29
■ Returned Checks	200.00
■ Cash Shortage	19.34
■ Cash in Bank	189,624.12
■ Deposits in Transit	<u>9,475.21</u>
Balance	<u>\$300,000.00</u>

Division of Administration Process Review

■ Project No. 06/07-04

Processes within the Division were reviewed for the purpose of recommending improvements in internal controls to the incoming Director.

AUDIT IN PROGRESS

Pre-need Funeral Contract Consumer Protection Trust Fund

■ Project No. 06/07-02

The audit addresses compliance with laws, rules, regulations, written policies and procedures, and evaluates internal controls. Areas for corrective action as well as areas of noteworthy strengths will be identified.

EXHIBIT B

CONSULTING ENGAGEMENTS

Department of Financial Services

- **Project No. 06/07-30**
Reviewed a Division of Information Services AP&P regarding the use of telephone devices and services
- **Project No. 06/07-02**
Reviewed a Division of Administration AP&P regarding confidential information on My Florida Market Place
- **Project Nos. 06/07-43, 06/07-46, 06/07-48, & 06/07-51**
Reviewed four bills regarding the conduct of investigations of law enforcement officers
- **Project No. 06/07-58, Project No. 06/07-59**
Reviewed two bills regarding revisions to inspector general functions and organization
- **Project No. 06/07-18**
Prepared the OIG portion of the Transition Report provided to the incoming Chief Financial Officer

Auditor General

- **Project No 06/07-27**
Responded to a request for the CFO's representation that expenditures reported for their audit of the State Basic Financial Statements are correct
- **Project No 06/07-14**
Responded to a request for disclosure of policies and procedures regarding related party transactions

Governor's Chief Inspector General

- **Project No.06/07-64**
Responded to a request for review of My Florida Marketplace vendor payments to a hotel corporation

■ **Project No. 06/07-65**

Responded to a request for review regarding improper overpayments made to correctional services contractors

OPPAGA

■ **Project No. 06/07-01**

Office of Program Policy Analysis and Government Accountability (OPPAGA) requested the completion of a survey of the Department's electronic records as a part of statewide project.

FDLE

■ **Project No. 06/07-22**

FDLE requested completion of a questionnaire regarding the FCIC/NCIC system loaded on one of the OIG's computers.

Florida Legislature

■ **Project No. 06/07-05**

The Florida House of Representatives - Governmental Operations Committee requested completion of a questionnaire regarding law enforcement records.

EXHIBIT C

EXTERNAL AUDIT ENGAGEMENTS

Office of the Auditor General

■ **Project No. 06/07-45**

This performance audit focused on local government financial reporting system. The findings and recommendations related to enhancements of the local government database and electronic filing system for the period from September 2006 through January 2007. (Report No. 2006-186)

■ **Project No. 06/07-62**

This Information Technology audit focused on evaluating internal controls applicable to FLAIR during the period July 2005 through June 2006. (Report No. 2007-027)

■ **Project No. 06/07-24**

This operational audit focused on the Department's centralized revenue receipting process and its contract with the Gadsden County District School Board, involving the processing of fingerprint cards. (Report No. 2007-057)

■ **Project No. 06/07-74**

This Information Technology audit focused on selected general and application IT controls related to the My Florida Market Place Buyer Component during the period July 2005 through June 2006. (Report No. 2007-076)

■ **Project No. 06/07-76**

This operational audit focused on selected operational aspects of the People First system, as tested at 16 state agencies, including DFS. (Report No. 2007-087)

■ **Project No. 06/07-69**

This Information Technology audit focused on selected general and application IT controls related to the Unclaimed Property Management Information System (Report No. 2007-186)

■ **Project No. 06/07-53**

This operational audit focused on the federal awards program administered by the State of Florida for the fiscal year ended June 30, 2006. (Report No. 2007-186)

EXHIBIT D

OUTSTANDING CORRECTIVE ACTIONS FROM PRIOR ANNUAL REPORTS

Workers' Compensation Penalty Process Follow-up Audit

■ **Project No. 06-07-01A**

The OIG performed a Follow-up of the Workers' Compensation Penalty Process Audit conducted in the prior Fiscal Year. Based on the fact that two recommendations remained outstanding, the Division of Workers Compensation was contacted. The recommendations are stated below:

- **Recommendation No. 1.** The Division of Workers' Compensation, Division of Administration, and the Division of Information Systems meet and determine whether CCAS and the Cash Receipts System can be linked or improvements can be made to facilitate the communication between the two systems. By linking the two systems, redundancy of manually keying in payment information may be eliminated and reconciliation of received and deposited penalty payments may be more easily performed.
- **Recommendation No. 2.** A target date to implement specific written procedures on how each penalty payment (e.g., monthly Periodic Payment Agreement (PPA) penalty payments) will be manually entered and saved into the CCAS database payment module in order to accurately account for date received, amount received, remaining balance, how over and under payments will be allocated, and whether minimum monthly payments will be due every month regardless of any previous overpayment(s) made.

In response to these two outstanding recommendations, the Division of Workers Compensation provided the following status update.

- **Update No. 1.** The Department's cash receipts unit was in the process of re-engineering its system to integrate with a new statewide accounting system (ASPIRE). The integration between the cash receipts unit and ASPIRE was scheduled for completion by the end of FY 2007, but the project has been terminated.

In June of 2007, the DWC met with representatives from the Division of Administration to initiate the development of a project plan which will establish compatibility between CCAS and CODA (Cashier's Office Deposit Automation),

which is a new cash receipts system. The integration of CODA with other DFS revenue tracking systems was an agency-wide initiative. The Division of

Administration determined that DWC would be one of the first Divisions to be linked with CODA. Recent agency budgetary limitations have caused this agency-wide initiative to be temporarily suspended. The DWC is still committed to integrating with CODA and has initiated discussions with the Division of Administration to fund the integration between DWC revenue tracking systems and CODA. Development of the integration has begun; however, it is premature to provide a target date for the completion of the entire project because more preliminary research is required. This initiative will be added to the Division's digital dashboard as a project and it will be updated monthly. The DWC will continue to utilize the RCP system, which is currently in place, until the integration with CODA is complete.

- ✦ **Update No.2.** The Bureau of Compliance through its Financial Accountability Section has implemented all of these procedures. The procedures are outlined in Training Memos and process flow charts that are available on the Bureau of Compliance public drive.

In addition, FAS is in the process of developing a comprehensive policies and procedures manual that will address the receipt and documentation of penalty payments, how each penalty payment will be entered and saved into CCAS, and how over and under payments will be allocated. The target date for the completion of the manual is February 1, 2008.

EXHIBIT E

INVESTIGATIONS

- **Project No. 06/07-01**
An allegation was received that a Division of State Fire Marshal employee misused state equipment and personnel to write and edit his personal manuscripts. Investigation was categorized as proved.
- **Project No. 6/07-07**
An allegation was received that a Division of Workers' Compensation supervisor advised investigators under his control not to enforce some violations regarding Workers' Compensation penalty payments. Investigation was categorized as disproved.
- **Project No. 06/07-06**
Allegation that an employee in the Division of Accounting and Auditing kept her ex-husband on her CHP HMO coverage after their divorce was investigated. Investigation was categorized as disproved.
- **Project No. 06/07-20**
Allegations were received from a citizen that an employee in the Division of Workers' Compensation attempted to extort money from him. Investigation was categorized as disproved.
- **Project No. 06/07-07**
Allegations of a dual employment violation and misuse of State resources by an employee of the Division of Rehabilitation and Liquidation was investigated. Investigation was categorized as proved.
- **Project No. 06/07-02**
An allegation was received from a citizen that a Division of Agent & Agency Services employee was rude to a citizen during a telephone conversation. Investigation was categorized as disproved.
- **Project No. 6/07-03**
An allegation was received from a citizen that a Division of Workers' Compensation employee was harassing him by reviewing his coverage. Investigation was categorized as disproved.

■ **Project No. 06/07-11**

An allegation was received that two employees of the Division of Accounting and Auditing were involved in a workplace confrontation over a personal matter. Investigation was categorized as disproved.

■ **Project No. 06/07-13**

An allegation was received that an employee of the Division of Agent & Agency Services made sexually suggestive and inappropriate comments to his subordinates. Investigation was categorized as proved.

■ **Project No. 06/07-18**

Allegations of rude and abusive behavior were received from a citizen regarding a Division of Workers' Compensation employee during an investigation of the citizen's business. Investigation was categorized as disproved.

■ **Project No. 06/07-22**

A complaint of inappropriate conduct was received from a former employee against a Division of Consumer Services supervisor. Investigation was categorized as proved.

■ **Project No. 06/07-24**

An employee in the Division of Agent and Agency Services made allegations of inappropriate conduct against his supervisor. Investigation was categorized as disproved.

■ **Project No. 06/07-25**

Two Department employees alleged they received a racially offensive document via the Department's email. The emails of both employees were reviewed and the offensive document could not be found to determine who may have sent it. Investigation was categorized as disproved.

■ **Project No. 06/07-31**

Allegations were received that an employee in the Division of Funerals, Cemetery, and Consumer Services inappropriately recorded a telephone conversation. Investigation was categorized as disproved.

■ **Project No. 06/07-33**

Allegations were received that an employee in the Division of Administration may be inappropriately removing Department property from the surplus property warehouse. Investigation was categorized as proved.

■ **Project No. 06/07-35**

An investigation was requested into possible misuse of State equipment by the Office of Insurance Regulation. This case was closed as these allegations were investigated by a team of investigators composed from the Financial Services Commission. Investigation was categorized as proved.

■ **Project No. 06/07-36**

An investigation was requested into possible misuse of State resources by an employee in the Division of Consumer Services. Investigation was categorized as proved.

- Six investigations were initiated based on requests from the Bureau of Human Resources to take statements regarding complaints of discrimination on the basis of disability, age, race, gender or retaliation.
- Nine investigations were initiated based on the arrest of Department employees. In some cases, employees did not make the required notification to their supervisors or the OIG. Judicial action was monitored and reports to management were provided.

EXHIBIT F

STAFF TRAINING COURSES

- Yellow Book and Red Book Standards
- Forensic Accounting Approach to Solving Fraud
- Audit Reporting for Impact & Results in the Public Sector
- FLAIR Managed Reporting Environment Training
- Heart Saver AED Training
- National Internal Affairs 2006 Training Conference
- EEO Investigator Training
- Media Relations Training
- Incident Command System Training for Law Enforcement
- Reid Technique of Interviewing and Interrogation
- Auditing for Fraud Seminar
- Certified Fraud Examiner's Interviewing and Interrogation Seminar
- Association of Inspectors' General Chapter meetings and conferences
- Tallahassee Chapter of the IIA luncheon meetings