

OFFICE OF INSPECTOR GENERAL



Ken Detzner
Secretary

Florida Department of State Annual Report 2013-2014



John L. Greene
Inspector General



Division of Corporations



Division of Elections



Division of Cultural Affairs



Division of Historical Resources



Division of Library and Information Services

All Florida residents are touched in some way by the programs, services, and activities of the Department of State.



FLORIDA DEPARTMENT *of* STATE

RICK SCOTT
Governor

KEN DETZNER
Secretary of State

August 28, 2014

Ken Detzner
Secretary of State
Florida Department of State
R. A. Gray Building
500 South Bronough Street
Tallahassee, FL 32399-0250

Dear Secretary Detzner:

I am pleased to submit our Annual Report on the activities of the Office of Inspector General (OIG) for the fiscal year ended June 30, 2014 as required by Section 20.055(7), Florida Statutes which summarizes accountability activities.

The value and services of the OIG can never be fully reflected in the annual report. The tangible results such as policies audited, management reviews, employees disciplined and complaint referrals can be readily reported. However, our intangible services and deterrent effect are not evident in an annual report. As you read this report, I hope you will recall the broad spectrum of services we provided the department and the professionalism of the OIG team that provides these services.

We look forward to working with you and our fellow department employees in meeting the challenges and opportunities that face the Florida Department of State. Thank you for your continued support and cooperation.

Sincerely,

John L. Greene, CIA, CIG, CGAP, CGFM
Inspector General



TABLE OF CONTENTS

INTRODUCTION	4
<i>OIG DUTIES AND RESPONSIBILITIES</i>	<i>4</i>
<i>ORGANIZATION AND STAFF</i>	<i>4</i>
<i>CERTIFICATION AND TRAINING</i>	<i>5</i>
SUMMARY OF ACTIVITIES	5
AUDIT ACTIVITIES	5
<i>Audit of Financial Information on Three State Historic Preservation Grants awarded in Fiscal Year 2012-2013 Audit Report Number 2014-03</i>	<i>5</i>
<i>AEIT Security Risk Assessment Follow-up 2014-15</i>	<i>7</i>
<i>Coordination with External Audit Organization</i>	<i>8</i>
<i>Performance Measurement Reviews</i>	<i>8</i>
OTHER AUDIT ACTIVITIES	8
<i>Enterprise Background Screening Project</i>	<i>8</i>
<i>Florida Single Audit Assistance</i>	<i>9</i>
<i>Other Project</i>	<i>9</i>
<i>Previously Reported Findings</i>	<i>9</i>
INVESTIGATION ACTIVITIES	9
<i>Investigations</i>	<i>9</i>
<i>Preliminary Inquiries</i>	<i>9</i>
<i>Additional Complaint Activities</i>	<i>10</i>
REVIEW ACTIVITIES	10
<i>Department's Laboratory, Archaeological Conservation-Vault Opening Review- Assignment Number 2014-01</i>	<i>10</i>
<i>Department's Property Inventory Procedures Review-Assignment Number 2014-08</i>	<i>10</i>
<i>Usage of the Florida Department of Highway Safety and Motor Vehicles (DHSMV) "Driver and Vehicle Information Database" (DAVID) Review-Assignment Number 2014-09</i>	<i>11</i>
<i>Review of Metavante Contract -Assignment Number 2014-10</i>	<i>11</i>
<i>Contract Deliverables Review -Assignment Number 2014-11</i>	<i>11</i>
<i>Purchasing Card Procedures Review -Assignment Number 2014-14</i>	<i>11</i>

TABLE OF CONTENTS (Continued)

RESOURCE HOURS UTILIZED	13
RISK ASSESSMENT AND WORK PLAN	14
ATTACHMENT 1 – Addressee and Distribution List	15

Section 20.055, Florida Statutes (F.S.), established the Office of Inspector General 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 progress in accomplishing its mission as defined by Florida law.

INTRODUCTION

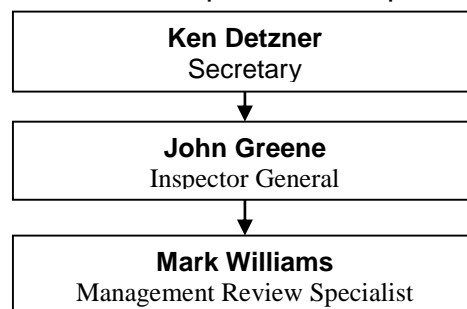
The Office of Inspector General (OIG) mission is to promote accountability, integrity and efficiency for the citizens of Florida by providing objective, timely audit and investigative services. The OIG conducts independent and objective audits, investigations as well as review of agency issues and programs to assist the department in accomplishing its mission.

OIG DUTIES AND RESPONSIBILITIES

- Advising in the development of performance measures, standards, and procedures for the evaluation of state agency programs.
- Reviewing the actions taken by the state agency to improve program performance and meet program standards and make recommendations for improvement, if necessary.
- Providing direction for, supervising and coordinating audits, investigations and management reviews relating to the programs and operations of the state agency.
- Conducting, supervising, 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.
- Keeping the agency head informed concerning fraud, abuses, and deficiencies relating to programs and operations administered or financed by the state agency, recommending corrective action concerning fraud, abuses, and deficiencies and reporting 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.

ORGANIZATION AND STAFF

To ensure operational independence the Inspector General reports directly to the Secretary of State and has unrestricted access to all Department activities and records. The OIG currently consists of two full-time professional positions as detailed below.



CERTIFICATION AND TRAINING

The staff brings to the department experience from the private and public sectors with expertise in the areas of accounting, audit and controllership. Professional certifications held by the staff include Certified Internal Auditor (CIA), Certified Inspector General (CIG), Certified Government Auditing Professional (CGAP) and Certified Government Financial Manager (CGFM). The staff maintains affiliations with the Institute of Internal Auditors, Association of Government Accountants and the Association of Inspectors General.

The *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors require audit staff to maintain their professional proficiency through continuing education and training. All audit and investigative staff shall obtain continuing education and training pursuant to the standards mandated by such organizations that are necessary to retain their professional designation in the “active” status. The staff accomplishes this by attending courses, conferences, seminars, self-study, and in-house training programs throughout the year.

SUMMARY OF ACTIVITIES

The following paragraphs contain a summary of the various activities completed during the fiscal year. The information contained in the Summary of Activities Section of this report was extracted from reports issued by the Department of State’s Inspector General and may only disclose essential information.

AUDIT ACTIVITIES

Audit of Financial Information on Three State Historic Preservation Grants awarded in Fiscal Year 2012-2013 Audit Report Number 2014-03

Audit Finding No. 1: Grant payments were submitted for payment by grant managers without required documentation from the grantee per the grant agreement.

Objective:

To assess if there was adequate support for the disbursements of the Historic Preservation Grants.

Criteria:

The grantee is required to submit documentation that helps ensure grant funds are being used within the scope and guidelines set forth in the grant agreement. The Division of Administrative Services’ staff relies on the grant manager to obtain proper documentation before a payment request is submitted by staff of the grant

division to ensure that grant funds are disbursed properly.

Condition Revealed during the audit:

Our evaluation of the grant files determined that grant payments were made to the grantee without the required back up documentation in place. Specifically:

- On one grant, the grantee wanted to substitute the Scope of Work in place of the Project Schedule which was required before the payment was made. The bureau chief instructed the grant manager to accept the scope of work as a proper deliverable and payment was made.
- A grant manager put the bureau chief on notice that the third payment request was made on a grant without the proper documents in place. The bureau chief instructed the grant manager to submit a certified payment request in spite of knowing the proper documentation has not been received to justify payment. The quarterly reports were submitted after payments were made.
- On one grant, timesheet rates were paid that were over the minimum wage rate and no justification was obtained from the grantee by the grant manager. We did request and received verification that the unjustified wage rates were paid out to the vendors at the requested rates.
- On one grant, the grantee entered subcontractor agreements before the approval by the grant manager and the subcontractor waiver requests were submitted after the agreements were executed.
- The grant managers did not obtain a project schedule in all three grants which is required by the grant agreement before any grant funding will be released.

Conclusion:

The grant managers submitted payment request without the proper documentation from the grantee per the grant agreement.

Recommendation:

We recommend the following to address issues related to this finding:

- The grant managers receive the necessary documents from grantees prior to submission for payment and the bureau chief or grant manager supervisor who handles Historic Preservation Grants perform a review and sign off on the payment package before it is submitted to the Division of Administrative Services for payment.
- The bureau chief and the grant manager supervisor need to work with the Division of Administrative Services' personnel in streamlining the Historic

Preservation Grant Award agreements and narrow down the deliverables that a grantee must provide before a payment is made.

- The Division of Historical Resources should hold grant management training for all personnel involved in the Historic Preservation Grant process that addresses the following items: Chapter 1A-39 Florida Administrative Code entitled Historic Preservation Grant Programs, revisions to the agreements and changes to the required deliverables from grantee before a payment is made.
- The Division director needs to closely monitor the Historic Preservation Grant process by meeting on a regular basis with the bureau chief to receive a detailed update on grant activities.
- Department management should consider formal disciplinary action that they consider appropriate related to the performance of managing these grants by departmental personnel.

AEIT Security Risk Assessment Follow-up 2014-15

The Agency for Enterprise Information Technology's (AEIT) 2011 Florida Enterprise Information Security Risk Assessment Survey was conducted to satisfy the requirements of Section 282.318, Florida Statutes. Section 282.318, F.S. requires all state agencies to: "Conduct, and update every 3 years, a comprehensive risk analysis to determine the security threats to the data, information, and information technology resources of the agency." It was designed to identify gaps between state agencies' information technology policies and AEIT requirements. The risk analysis information is confidential and exempt from the provisions of s.119.07 (1), except that such information shall be available to the Auditor General and the Agency for Enterprise Information Technology in performing post-auditing duties.

On March 28, 2012, the Department of State (Department) completed the 2011 Florida Enterprise Information Security Risk Assessment Survey and reported the status of its implementation of each of the 50 security measures included in the survey.

Although the AEIT no longer exists, the security measures covered by the 2011 AEIT survey represent best practices for management of threats to the data, information, and information technology resources of the Department. This follow-up review was conducted to determine the Department's status for each of the 50 security measures included in the 2011 AEIT survey.

The Department has made remarkable progress by fully implementing 47 of the 50 security measures. The following items are close to completion such as: An annual security awareness training needs to be scheduled; the Computer Security Incident Response Team has held meetings but meetings need to occur more often; and a template has been adopted for creation of system security plans for each application which will be an on-going project.

Coordination with External Audit Organization

During Fiscal Year 2013-14, the OIG coordinated activity with the Auditor General (AG). As shown below the AG issued a report that required the Department to respond to the findings and recommendations.

AG: Report No. 2014-181, dated March 2014 – Operational Audit of the Department of State, Voting System Standards and Certification and Prior Audit Follow-up.

Performance Measurement Reviews

The OIG reviewed the 2014-2015 Long Range Program Plan (LRPP) for the Department of State which was submitted in the format prescribed in the budget instructions. We selected and reviewed nine performance measures and standards of Cultural Affairs for accuracy, validity and reliability for the 2012-2013 Fiscal Year (FY).

We determined that the three performance measures related to the Museum of Florida History were accurate, valid and reliable. Also, we determined that the six performance measures related to cultural activities were valid and the supporting data for these six performance measures were not accurate or reliable. Because data collection for these measures is not complete until a few months after the reporting deadline for actual numbers, they are forced to report projections rather than the final and confirmed data.

Our review revealed the following proposed recommendations for management to consider implementing:

- We recommend that the Deputy Secretary for Cultural, Historical & Information Programs and Director of the Division of Cultural Affairs evaluate the six performance measures in place for cultural activities to determine if these performance measures are still appropriate for the purpose for which it is being used. Also, we recommend that management develop a quarterly reporting process for each performance measure that will assist the Division in capturing the actual results for each performance measure by fiscal year.

OTHER AUDIT ACTIVITIES

Enterprise Background Screening Project

The State of Florida Inspectors General Enterprise Audit Plan for Fiscal Year 2012-2013¹ identified background screening as an enterprise priority due to the potential risks and opportunities for cost savings to the enterprise. As a result, in accordance with Section 14.32, Florida Statutes (F.S.), the Executive Office of the Governor's Office of the Chief Inspector General assembled a multi-agency audit team to conduct an enterprise assessment of the State's background screening process.

¹ State of Florida Inspectors General, Enterprise Audit Plan for Fiscal Year 2012-2013, pp. 1-2.

The Department of State personnel director participated in a survey concerning the department's background screening policies, procedures, processes and other relevant information. The results of the enterprise assessment of the State's background screening process was reported by the Executive Office of the Governor Chief Inspector General in Report Number 2013-15 titled "Enterprise Assessment of the State of Florida's Background Screening Process, Identifying Costs and Opportunities for Efficiencies and Economies."

Florida Single Audit Assistance

The Secretary of State designated the OIG as the organizational unit within the Department responsible for the review of financial reporting packages required by the Florida and Federal Single Audit Acts pursuant to Section 215.97, Florida Statutes and OMB Circular 133. We reviewed 365 Florida single audits or certificate of exemptions that were submitted in fiscal year 2013-2014. During this fiscal year the OIG made many single audit improvements to our single audit process such as:

- Updated the single audit procedure for the OIG
- Updated the single audit checklist
- Completed the project tracker system update

Other Project

Pursuant to Section 11.45(2) (i), Florida Statutes, once every three years the Office of the Auditor General is required to review a sample of internal audit reports at each state agency and determine compliance with the current Standards for the Professional Practice of Internal Auditing. To prepare for that review the Inspector General prepared a Self-Assessment, as required by and provided to the Auditor General. The OIG internal audit activity section was reviewed in the beginning of the fiscal year 2013-2014 for work performed in fiscal year 2012-2013. No findings were noted in the Auditor General Report No. 2014-048 dated November 2013.

Previously Reported Findings

The OIG did not identify any significant findings reported in prior annual reports for which the department has not taken corrective action.

INVESTIGATION ACTIVITIES

Investigations

The OIG completed no investigations during this fiscal year.

Preliminary Inquiries

Throughout the fiscal year the OIG conducted preliminary inquiries in order to determine if a full investigation was necessary under the circumstances. One example of such

preliminary inquiry was predicated on an Anonymous Complaint by a citizen that a department employee made threats to coworkers and patrons. During our preliminary inquiry the OIG interviewed relevant Division staff. Our preliminary inquiry provided no evidence of wrongdoing on the part of the department employee and the inquiry was closed as unfounded.

Additional Complaint Activities

During the fiscal year we received 247 complaints. We review all complaints received and provided the complainant with suggested contact information of the agency with appropriate jurisdiction. We referred 216 to other agencies not within the jurisdiction of the OIG.

REVIEW ACTIVITIES

Department's Laboratory, Archaeological Conservation-Vault Opening Review-Assignment Number 2014-01

During this engagement the OIG determined that the vault is secure for opening and closing and there is an adequate security system in place that is monitored on site and off site through the use of video surveillance and alarms. Our review revealed the following proposed recommendations for management to consider implementing:

- The vault opening procedure should be reviewed, revised and formalized to ensure that all aspects of the vault opening are clearly addressed.
- The Bureau should develop a step by step process for opening and closing the vault.
- The procedure should reference the Department's COOP Plan.
- The procedure should reference all forms and databases used in conjunction with the vault operations.

Department's Property Inventory Procedures Review-Assignment Number 2014-08

During this engagement the OIG determined that the overall inventory process is handled and conducted in a professional and effective manner. The practice of tagging attractive items under \$1,000 was a positive step toward securing the Department's inventory. Some issues with locating inventory items involved end users relocating items and not informing the Division of Administrative Services. The process of new inventory intake is handled per the procedures with no discrepancies. Our review revealed the following proposed recommendations for management to consider implementing:

- The Division should formalize the Department's annual inventory process into the inventory procedure and develop a step by step process for conducting the annual inventory.

- The property custodian should be allowed to tag items as he finds them regardless of the age of the item.
- The Division of Administrative Services should be notified when any tagged item is moved to a new location or re-assigned to a different staff member.
- The property custodian should be instructed to discontinue the practice of verifying inventory items before the start of the annual inventory process.

Usage of the Florida Department of Highway Safety and Motor Vehicles (DHSMV) “Driver and Vehicle Information Database” (DAVID) Review-Assignment Number 2014-09

During this engagement the OIG determined that that the Division of Elections employees authorized to use the DHSMV DAVID system had signed a Standard of Conduct, had a successful Type II background check completed and the files searched in the DAVID system were done for the appropriate reason.

Review of Metavante Contract -Assignment Number 2014-10

During this engagement the OIG determined that the Division of Corporations is performing adequate monitoring of transactions handled by Metavante, the vendor had proper collateralization of public funds and the vendor had an unqualified opinion that the controls related to the control objective were achieved and operating effectively.

Contract Deliverables Review -Assignment Number 2014-11

The OIG conducted a review of the Contract Deliverables as part of a follow-up of a review performed by Department of Financial Services. The OIG reviewed the following three contracts/purchase orders awarded in Fiscal Year 2013-2014 to Image API, LLC (totaling \$90,000), CommerNet, Inc.(totaling \$116,280), and The Gale Group (totaling \$1,021,739.50).

During this engagement the OIG determined that a Summary of Contractual Agreement/Purchase Order was completed as required, the payment processing checklist was completed by the Department’s Division of Administrative Services staff, grant managers were enforcing contract terms; deliverables were received before payment was made and contract managers provided written certification.

Purchasing Card Procedures Review -Assignment Number 2014-14

During this engagement the OIG determined that the established internal controls related to the department’s Purchasing Card Program provided reasonable assurance we are managing the program in compliance with laws and regulation. We did determine during our review that the purchasing card cancellation issue identified in an operational audit by the Auditor General were being timely canceled when cardholders separated from the department.

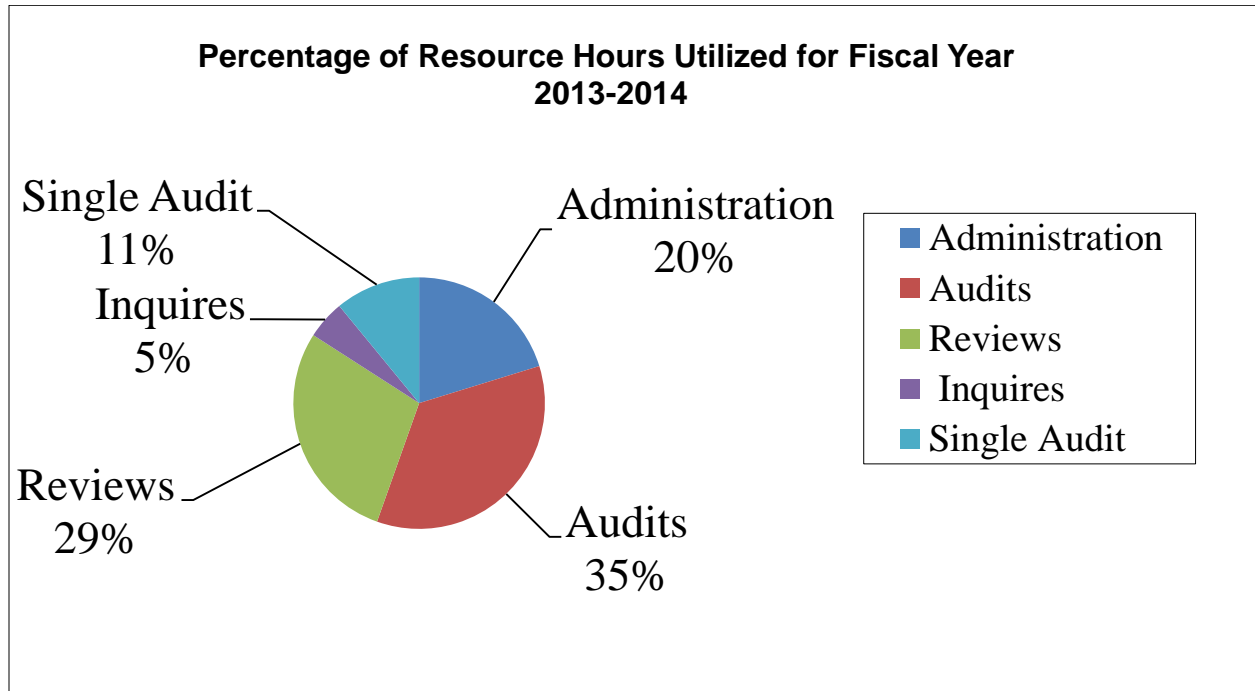
The review did find some differences between the procedure documents and the agency plan which are being updated to reflect consistency. We found that some receipts did not show a zero balance and payment via Visa or credit card which is recommended by Department of Financial Services (DFS) and included in the agency plan and procedure. The bureau chief of Planning, Budget and Financial Services has implemented changes to make sure that this is reflected on future support of purchasing card payments. Our review also revealed that the reconciliation reports completion went beyond the ten calendar day deadline in the agency plan. DFS does not mandate a frequency but the department must follow what is in the agency plan. The bureau chief of Planning, Budget and Financial Services has implemented changes to make sure that the reconciliations are completed in accordance with the agency plan.

Our review revealed the following proposed recommendations for management to consider implementing:

- Reemphasize that daily processes should follow what is outlined in the agency plan and the purchasing card procedures.
- A page by page overview of the agency plan and purchasing card procedures should be conducted for all participants in the purchasing card process.

RESOURCE HOURS UTILIZED

The chart depicts how the OIG utilized its resources during Fiscal Year 2013-2014.



Notes to Resource Chart Above:

Administration includes: Administrative work to manage the OIG, attend meetings, professional training of the Office staff, annual leave, sick leave and holiday leave.

RISK ASSESSMENT AND WORK PLAN

Both Florida Statutes and professional audit standards require the development of risk based work plans (both short and long term) which consider resource requirements. The OIG currently has 2 positions. Based on our analysis, staff members will be able to expend approximately 3266 staff hours to work plan engagements. Approximately 400 staff hours will be needed to complete ongoing projects initiated during the current fiscal year. The remaining 2866 hours will be programmed for new engagements.

The following contains our proposed work plan. Following the table of projects planned for the 2014-2015 fiscal year, we have included a table of projects planned for succeeding fiscal years.

PROPOSED 2014-2015 WORK PLAN AND SELECTION CRITERIA		
Work Plan Project	Selection Criteria	Estimated hours
Enterprise Audit Plan Projects	State of Florida Inspector's General Enterprise Audit Plan	573
Total Recall System Testing	Carry Over from Fiscal Year 2013-2014	300
System Redevelopment Monitoring	Risk Assessment Issue	180
Performance Measures – 2014-2015	Statutory Compliance -Recurring Work Plan Item	160
Cultural Affairs Facilities Grant Audit	Risk Assessment Issue	320
Image API - UCC Contract review	Risk Assessment Issue	160
Auditor General Audits/Corrective Action	Statutory Compliance -Recurring Work Plan Item	60
Florida Single Audit Program Monitoring	Recurring Work Plan Item	600
OPPAGA Corrective Action Status Reports	Statutory Compliance -Recurring Work Plan Item	40
OIG Risk Assessment	Recurring OIG Work Plan Item	120
Management Requests	Recurring OIG Work Plan Item	253
OIG Corrective Action/Follow-up	Recurring OIG Work Plan Item	160
Conduct Investigations as Needed	Statutory Compliance -Recurring Work Plan Item	200
Quality Assessment Review	Statutory Compliance - Recurring Work Plan Item	40

POTENTIAL OUT YEAR WORK PLAN PROJECTS
Historical Grants
Bureau of Election Records
Mission San Luis-Operations
Annual Reports-Corporations
Florida Electronic Library Usage
Performance Measures
Auditor General Audits/Corrective Action
Florida Single Audit Program Monitoring
OPPAGA Corrective Action Status Reports
OIG Risk Assessment
Management Requests
Conduct Investigations as Needed

ATTACHMENT 1 – Addressee and Distribution List

Ken Detzner, Secretary

Copies distributed to:

Jennifer Kennedy, Assistant Secretary of State and Chief of Staff

John Boynton, Deputy Secretary for Administrative Services, Corporations and
Elections

Kerri Post, Deputy Secretary for Cultural Affairs, Historical Resources and Library and
Information Services

David Martin, Auditor General

Melinda Miguel, Chief Inspector General