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Ron DeSantis, Governor
Jonathan R. Satter, Secretary

September 25, 2019

Jonathan R. Satter, Secretary
Department of Management Services
4050 Esplanade Way, Suite 285
Tallahassee, Florida, 32399-0950

Melinda Miguel, Chief Inspector General
Executive Office of the Governor
1902 The Capitol
Tallahassee, FL 32399-0001

Re: DMS OIG Annual Report for Fiscal Year 2018-2019

Secretary Satter and Chief Inspector General Miguel:

In accordance with section 20.055(8)(a), Florida Statutes, I am pleased to present the Office of Inspector General's Annual Report for Fiscal Year 2018-2019. The report summarizes the accomplishments of staff within the Investigations and Internal Audit Sections during Fiscal Year 2018-2019.

We remain committed to enhancing and promoting accountability, integrity and efficiency and look forward to continuing to work with you and the Department of Management Services staff in Fiscal Year 2019-2020.

If you have any questions, please call me at (850) 488-5285.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Sarah Beth Hall'. The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Sarah Beth Hall
Inspector General

ANNUAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2019



Jonathan R. Satter
Secretary

Sarah Beth Hall
Inspector General

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INTRODUCTION

Section 20.055, Florida Statutes (F.S.), establishes an 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. Section 20.055, F.S., also outlines the specific duties of each Inspector General, including the duties and responsibilities for carrying out auditing and investigative activities. Additionally, section 20.055, F.S., specifies that each Inspector General shall prepare an annual report no later than September 30 of each year, which summarizes the activities of the office during the prior fiscal year, and includes:

- 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 the 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; and,
- A summary of each audit and investigation completed during the reporting period.

This annual report is presented to the Secretary of the Department of Management Services and the Executive Office of the Governor's Chief Inspector General to comply with statutory requirements and to provide department staff and interested parties with information on the Office of Inspector General's progress in accomplishing its mission.

MISSION STATEMENT

The Office of Inspector General's mission is to promote effectiveness, efficiency, and quality within the Department of Management Services. The Office of Inspector General provides independent reviews, assessments, and investigations of department programs, activities, and functions to assist the Department of Management Services in accomplishing its overall mission.

DUTIES AND RESPONSIBILITIES

In accordance with section 20.055(2), F.S., the Inspector General's duties and responsibilities include:

- Providing direction for, supervising, and coordinating audits, investigations, and management reviews relating to the programs and operations of the state agency, except that when the Inspector General does not possess the qualifications specified in subsection (4), the director of auditing shall conduct such audits;
- Conducting, supervising, or coordinating other activities carried out or financed by that 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 or, for state agencies under the jurisdiction of the Governor, the Chief Inspector General 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;
- 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, before submission of such information pursuant to section 216.1827, F.S.;
- Reviewing the actions taken by the state agency to improve program performance and meet program standards and make recommendations for improvement, if necessary;
- Ensuring effective coordination and cooperation between the Auditor General, federal auditors, and other governmental bodies with a view toward avoiding duplication;
- Reviewing, as appropriate, rules relating to the programs and operations of such state agency and making recommendations concerning their impact;
- Ensuring that an appropriate balance is maintained between audit, investigative, and other accountability services; and,
- Complying with the *General Principles and Standards for Offices of Inspector General* as published and revised by the Association of Inspectors General.

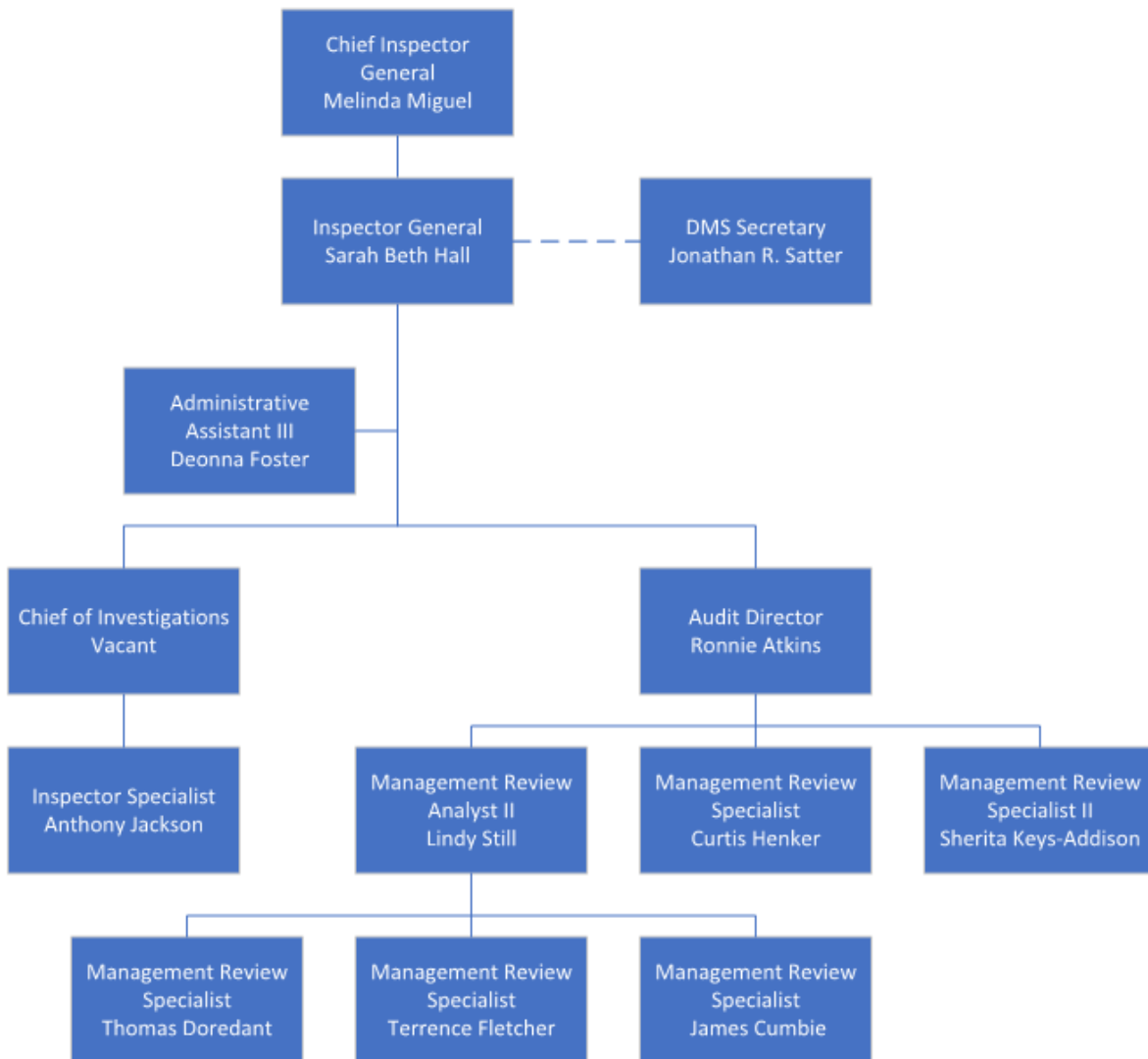
INDEPENDENCE

In accordance with section 20.055(3), F.S., the Inspector General shall be under the general supervision of the agency head for administrative purposes, shall report to the

Chief Inspector General, and may hire and remove staff within the Office of Inspector General in consultation with the Chief Inspector General, but independently of the agency. The organizational independence of the Inspector General helps to ensure that audits, investigations, and other activities are performed independently.

OFFICE OF INSPECTOR GENERAL ORGANIZATION AND STAFFING

The Office of Inspector General consists of 11 staff positions. In addition to the Inspector General and Administrative Assistant III, staff positions fall within two sections: Investigations and Internal Audit. The Office of Inspector General's organizational structure is as follows:



As of June 30, 2019

PROFESSIONAL STANDARDS AND CODE OF ETHICS

Pursuant to section 20.055(2)(j), F.S., the Office of Inspector General complies with the *General Principles and Standards for Offices of Inspector General* as published and revised by the Association of Inspectors General. Internal audits are conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* as published by the Institute of Internal Auditors, Inc., or, where appropriate, in accordance with *Generally Accepted Governmental Auditing Standards* published by the United States Government Accountability Office. Staff abide by the Florida Code of Ethics for Public Officers and Employees as codified in sections 112.311-112.326, F.S., the Executive Office of the Governor's Code of Ethics, and the Department of Management Services Administrative Policy HR 07-105 Code of Ethics.

Staff Professional Certifications

During the fiscal year¹, members of the Office of Inspector General staff held the following professional certifications:

- *Certified Inspector General (2)*
- *Certified Inspector General Auditor (3)*
- *Certified Inspector General Investigator (1)*
- *Certified Public Accountant (1)*
- *Certified Internal Auditor (2)*
- *Certified Information Systems Auditor (2)*
- *Certified Information Security Professional (1)*
- *Certified Fraud Examiner (1)*
- *Certified Management Accountant (1)*
- *Florida Certified Contract Manager (2)*
- *Notary Public (2)*

Staff Professional Affiliations

During the fiscal year¹, members of the Office of Inspector General staff were affiliated with the following professional organizations:

- Association of Inspectors General (National and Local)
- The Institute of Internal Auditors, Inc. (National and Local)
- Association of Government Accountants (National and Local)
- ISACA (National and Local)
- Institute of Management Accountants
- Association of Certified Fraud Examiners

¹ Certifications and affiliation memberships held by staff of the OIG as of June 30, 2019.

Staff Training

Regarding professional training, the Association of Inspectors General specifies that each staff person performing audits, investigations, evaluations, or reviews should receive at least 40 hours of continuing professional education every two years in areas that directly enhances the staff member's professional proficiency. Additionally, the Internal Audit Section staff enhance their knowledge, skills, and other competencies through continuing professional development in accordance with the Institute of Internal Auditors, Inc. auditing standards.

Office of Inspector General staff attended various training sessions during Fiscal Year 2018-2019 in areas that enhanced their professional proficiency. Staff attended training sessions that were offered by several associations of the above affiliates and the Florida Department of Management Services.

SUMMARY OF ACTIVITIES FOR FISCAL YEAR 2018-2019

During the fiscal year, the Office of Inspector General completed the following activities:

Investigations Section

Section 20.055, F.S., outlines the investigative duties and responsibilities for Offices of Inspectors General to include in pertinent part:

- Initiating, conducting, supervising and coordinating investigations designed to detect, deter, prevent, and eradicate fraud, waste, mismanagement, misconduct, and other abuses in state government;
- Receiving complaints and coordinating all activities of the agency 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 Office of Inspector General. This shall include freedom from any interference with investigations and timely access to records and other sources of information;

- Submitting findings when applicable to the subject that is a specific entity contracting with the state or an individual substantially affected, who shall be advised in writing that they may submit a written response within 20 working days after receipt of the findings, and including the response and the Inspector General’s rebuttal to the response, if any, with the final investigative report; and,
- Submitting, in a timely fashion, final reports on investigations conducted by the Inspector General to the agency head, except for whistle-blower’s investigations, which shall be conducted and reported pursuant to section 112.3189, F.S.

Complaints or Requests for Assistance Received in Fiscal Year 2018-2019

The Investigations Section receives complaints and requests for assistance via telephone, letter, email, or in person. Each complaint or request for assistance is reviewed to determine if provisions of sections 112.3187-112.31895, F.S., (Whistle-blower’s Act) are met. During Fiscal Year 2018-2019, the Investigations Section received, reviewed, and processed 158 complaints or requests for assistance. Of the 158 complaints or requests for assistance, 3 resulted in internal investigations or reviews; 103 were referred to management for review or response to the Investigations Section²; 33 were resolved and handled by the Investigations Section with minimal investigative activity necessary; 3 were resolved and handled by the Office of Inspector General with some investigative activity; 10 were handled as public records requests; and 6 were referred to the appropriate law enforcement entity.

| Type of Complaint or Request Received | Quantity | Percentage |
|---------------------------------------|------------|-------------|
| Investigations/Reviews | 3 | 2% |
| Management Referral | 103 | 65% |
| Contacts/Agency Assist | 33 | 21% |
| Office of Inspector General Review | 3 | 2% |
| Public Records Request | 10 | 6% |
| Law Enforcement Referral | 6 | 4% |
| Total | 158 | 100% |

Complaints or Requests for Assistance Closed in Fiscal Year 2018-2019

During Fiscal Year 2018-2019, the Investigations Section closed 158 complaints or requests for assistance. Of the 158 complaints or requests for assistance closed, 2 were internal investigations or reviews; 101 were referred to management for review or response to the Investigations Section; 38 were resolved and with minimal investigative activity necessary; 5 were resolved and handled by the OIG with some investigative

² When the Investigations Section requested a response from management, each management response was reviewed to ensure that all identified issues were addressed.

activity; 10 were handled as public records requests; and 2 were referred to the appropriate law enforcement entity.

| Type of Complaint or Request Closed | Quantity | Percentage |
|-------------------------------------|------------|-------------|
| Investigations/Reviews | 2 | 1% |
| Management Referral | 101 | 64% |
| Contacts/Agency Assist | 38 | 24% |
| Office of Inspector General Review | 5 | 3% |
| Public Records Request | 10 | 7% |
| Law Enforcement Referral | 2 | 1% |
| Total | 158 | 100% |

Summary of Investigations or Reviews Closed in Fiscal Year 2018-2019

Case Number 2019.51

On October 31, 2018, the Investigations Section initiated an investigation into allegations that a Department of Management Services' employee made inappropriate comments and inappropriately touched a contracted employee. Based on information obtained during the investigation, the allegations were not supported. However, evidence obtained supported that the employee made inappropriate comments in the workplace unrelated to these specific allegations.

Case Number 2019.67

On January 3, 2019, the Investigations Section initiated an investigation into allegations that a Department of Management Services supervising employee made derogatory or hurtful comments to a subordinate and singled out or treated a subordinate differently than other subordinate employees. Based on information obtained during the investigation, the allegations were not supported.

Summary of Recommendations Related to Significant Abuses and Deficiencies Disclosed During Fiscal Year 2018-2019

No significant abuses or significant deficiencies were identified by the Investigations Section.

Accreditation

An accreditation program has long been recognized as a means of maintaining and verifying the highest standards. Accreditation is the certification by an independent reviewing authority that an entity has met specific requirements and prescribed standards.

In 2009, the Commission for Florida Law Enforcement Accreditation (CFA) expanded its program to include inspectors general offices.

On October 3, 2018, the full CFA voted unanimously to award the certificate of accreditation to the Department of Management Services Office of Inspector General. The accreditation remains in effect for three years at which point, state assessors will complete a re-accreditation review of the Office of Inspector General in the Fall of 2021.

Background Screenings

The Investigations Section is responsible for conducting criminal background screenings in accordance with sections 110.1127, 435.03³, and 435.04⁴, F.S. Criminal background screenings are conducted on all candidates for employment or promotion within the Department of Management Services and for a limited number of candidates filling certain contracted positions. The Investigations Section also conducts criminal background screenings for entities affiliated with the Department of Management Services including the Florida Commission on Human Relations, the Florida Division of Administrative Hearings, the Florida Public Relations Commission, and the State Board of Administration. As a condition of employment, candidates for employment must pass a Level 2 criminal background screening for positions of special trust. All other candidates for employment must pass a Level 1 criminal background screening.

During Fiscal Year 2018-2019, the Investigations Section processed 904 Level 2 criminal background screenings and 14 Level 1 criminal background screenings.

Internal Audit Section

The Internal Audit Section consists of two units, the Program Audit Unit and the Retirement Compliance Audit Unit.

Program Audit Unit

Program Audit staff perform independent audits, reviews and examinations to identify, report and recommend corrective actions for areas of inefficiencies, control deficiencies or non-compliance with applicable laws, policies, and procedures. Section 20.055, F.S., outlines the auditing duties and responsibilities for Offices of Inspectors General to include:

- Reviewing and evaluating internal controls necessary to ensure the fiscal accountability of the state agency;

³ Section 435.03, F.S., outlines the conditions necessary to conduct a Level 1 criminal background screening.

⁴ Section 435.04, F.S., outlines the conditions necessary to conduct a Level 2 criminal background screening.

- Conducting financial, compliance, electronic data processing, and performance audits of the agency and preparing audit reports of findings; and,
- Conducting audits in accordance with the current *International Standards for the Professional Practice of Internal Auditing* as published by the Institute of Internal Auditors, Inc., or, where appropriate, in accordance with *Generally Accepted Governmental Auditing Standards* published by the United States Government Accountability Office. All audit reports issued by program audit staff shall include a statement that the audit was conducted pursuant to the appropriate standards.

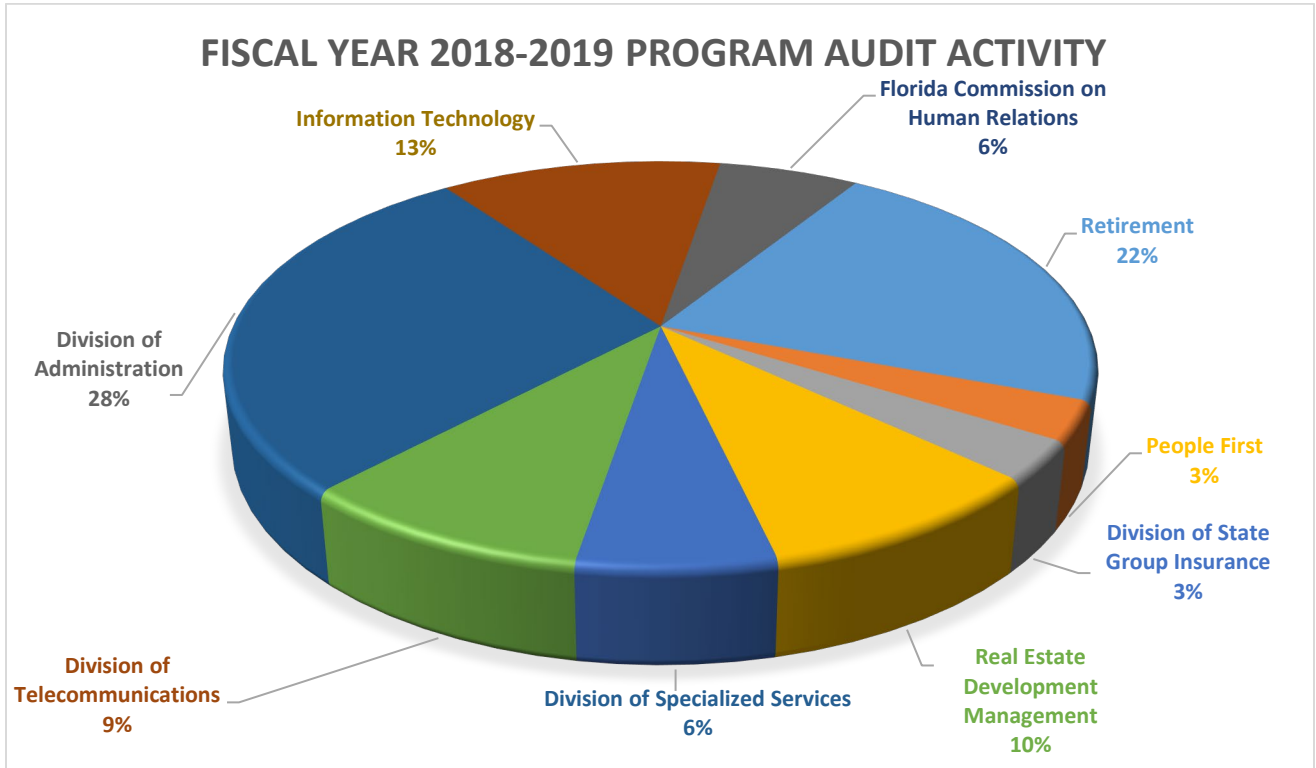
In meeting the statutory duties and responsibilities outlined above, the Program Audit Unit:

- Conducts *Performance Audits* to ensure the effectiveness, efficiency, and economy of department programs;
- Provides *Management Assistance Services* to advise management on emerging issues and concerns;
- Performs *Consultant Services* to partner with and assist management by providing advisory and related services aimed at adding value to the department and improving the department's governance, risk management, and control processes;
- Coordinates *External Audit* engagements conducted by the Auditor General, Office of Program Policy Analysis and Government Accountability, and other oversight units;
- Conducts *Follow-up Reviews* of findings and recommendations identified in both internal and external audits; and,
- Assists management with *Performance Measures* by assessing the reliability and validity of the department's information on performance measurement and standards.

Summary of Program Audit Unit Activities in Fiscal Year 2018-2019

During Fiscal Year 2018-2019, the Program Audit Unit published two internal audit reports and consulted with management regarding the Florida Single Audit Act requirements. The Program Audit Unit also ensured coordination between the Department of Management Services program areas and external auditors. During Fiscal Year 2018-2019, seven external audits and one evaluation of the Department of Management Services were published by the Auditor General and the Office of Program Policy Analysis and Government Accountability (OPPAGA), respectively.

The Program Audit Unit percentage of time spent used for the Department Divisions and Affiliated Entities during Fiscal Year 2018-2019 is shown in the following chart:



Audit (Assurance) Projects

Internal Audit Report Number 2018-069 - Audit of the Retirement Call Center

The objective of this audit was to evaluate the processes and procedures within the Division of Retirement's Contact Center, to ensure reliable, consistent, and timely customer service. The scope of the engagement included an examination of the Contact Center's policies, procedures, practices, and internal controls during Fiscal Year 2017-2018.

Contact Center management and staff demonstrated the following during the audit:

- Staff have access to comprehensive and evolving training materials as well as training opportunities to enhance their performance.
- Many of the Contact Center's procedures are formally documented and periodically updated.

- After-call wrap-up times consistently meet or exceed the requirement, of not exceeding 90 seconds, as outlined in the Contact Center's performance measures for Fiscal Year 2017-2018.
- Management recently added Frequently Asked Questions to the website to provide callers with another means of obtaining information and reducing the need to speak with Customer Service Representatives to help reduce the wait times and abandoned calls.
- Contact Center staff use monthly statistics and data from the Contact Center's software system that measure some of the industry's common performance measures.
- Contact Center management periodically provide status reports to the Division of Retirement and the Department of Management Services' management on customer service survey results, including: calls answered within 100 and 180 seconds; accuracy and professionalism; and abandoned calls.

The audit recommended the following areas for process improvements:

- Implementation of a customer complaint resolution function;
- Alignment of employee specific, measurable, achievable, relevant, and time-bound (SMART) expectations with Contact Center key performance measures;
- Development and implementation of Contact Center goals and objectives along with related performance measures;
- Improvements in processes and procedures for measuring performance; and
- Improvements in processes and procedures for obtaining customer feedback.

Internal Audit Report Number 2018-017 - Audit of the Employee Termination and Transfer Processes

The objective of this audit was to evaluate the processes and procedural controls used for processing employee terminations and transfers to ensure appropriate access security for the department.

Our audit disclosed that the department has policies and procedures for processing employee terminations and that they outline the roles and responsibilities for Office of Human Resources (OHR), supervisors, human resource (HR) liaisons, and the Office of Information Technology. Also, the policies and procedures require the use of a designated email to notify property, equipment, and access administrators of employee terminations.

However, our audit noted that the department's processing of terminated and transferred employees would be improved by making the following changes and updates:

- **Policies and Procedures:** Update the policies and procedures to include specific steps for notifying OHR and providing written documentation of employee separation, ensuring more timely notification to the building access administrator, requiring supervisors to determine and communicate the assets and access required by employees during their last days at work, and providing a timeline for submission of the completed *Employee Exit Checklist*.
- **Documentation and Forms:**
 - Implement monitoring procedures to help ensure that policies, procedures, and forms are kept current.
 - Review and update the form used by the Division of Retirement to ensure consistency with the policy. Also, management should consider adding the following requirements to the department policy:
 - Supervisors and the division access administrators to document the destruction of purchasing cards and department ID badges, the return of assets, and the appropriate update of access privileges; and
 - HR liaisons to certify the receipt and completion of the checklist.
- **Inventory of Assigned Property, Authorizations, and Department Resources:** Implement procedures to maintain a centralized inventory of property, authorizations, and other department resources assigned to employees so that access granted can be removed or changed, as appropriate, when employees terminate or transfer.
- **Termination Process:** Develop and implement monitoring procedures to ensure timely compliance with the policies and procedures. Also, include verifying completeness of the HR 103-F2 checklist and notifying the directors of the divisions and offices when units are noncompliant. Ensure the HR liaisons, as well as the supervisors, understand the policy and procedures.
- **Transfer Process:** Develop and implement policies and procedures for processing transferring employees which ensures that property, equipment, authorization, and access remains appropriate after an employee has transferred to a new position.

Management Advisory Projects

Florida Single Audit Act Requirements Consulting Project

The objective of this ongoing consulting project is to help ensure compliance with governing directives and to ensure management's awareness of their roles and

responsibilities under the Florida Single Audit Act as changes occur in leadership within the Department of Management Services.

External Audit Coordination

The Program Audit Unit coordinates information requests and management responses between external auditors and management and, as requested, assists with scheduling meetings. When the external audit is complete and the preliminary and tentative report has been issued, the Program Audit Unit coordinates the required management responses for the external audit reports.

In Fiscal Year 2018-2019, the Program Audit Unit coordinated seven external audits completed by the Auditor General and one evaluation of Department of Management Services by OPPAGA. The completed external audits contained 14 recommendations to the Department of Management Services. The *External Audit Coordination Completed* table shown below lists the completed external engagements.

| External Audit Coordination Completed | | |
|--|--|-------------|
| Report Number | Audit Subject | Report Date |
| Auditor General Report 2019-018 | Florida Retirement System and Retiree Health Insurance Subsidy Program Cost-Sharing Multiple Employer Defined Benefit Pension Plans – Schedules of Deferred Outflows for Contributions Subsequent to the June 30, 2017, Measurement Date by Employer | 8/31/2018 |
| Auditor General Report 2019-086 | Florida Retirement System Pension Plan and Other State - Administered Systems – Financial Audit | 12/19/2018 |
| Auditor General Report 2019-220 | Department of Management Services - Integrated Retirement Information System (IRIS) - Information Technology – Operational Audit | 6/28/2019 |
| OPPAGA Memorandum | Evaluation of the Current Private Prison Operational Contract for Gadsden Correctional Facility | 6/03/2019 |
| Auditor General Report 2019-102 | Schedules of Employer Allocations and Pension Amounts by Employer for the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program - Cost-Sharing Multiple Employer Defined Benefit Pension Plans – Financial Audit | 1/16/2019 |
| Auditor General Report 2019-186 | State of Florida - Compliance and Internal Controls Over Financial Reporting and Federal Awards | 3/28/2019 |
| Auditor General Report 2019-098 | Statewide Law Enforcement Radio System Prior Audit Follow-Up and Selected Administrative Activities – Operational Audit | 1/07/2019 |
| Auditor General Report 2019-040 | Office of Inspector General’s Internal Audit Activity – Quality Assessment Review | 10/30/2018 |

Follow-up Reviews

During Fiscal Year 2018-2019, the Program Audit Unit performed three follow-up reviews regarding the corrective actions taken by the Department of Management Services on prior internal audit report findings. The follow-up reviews noted that corrective action plans were incomplete on 7 of the 25 findings. It is the Program Audit Unit's policy to continue to monitor outstanding recommendations until corrective action has been implemented or until management accepts the risk of not implementing the recommendations. The *Follow-up Reviews Completed* table shown below lists the completed follow-up reviews.

| Follow-up Reviews Completed | | |
|------------------------------------|---|-----------------------|
| Original Report Number | Audit Subject | Date Completed |
| Internal Audit Report 2016-8787 | 24-Month Follow-up to Audit of Department Cash Receipts Process | 1/04/2019 |
| Internal Audit Report 2017-07 | 24-Month Follow-up to Physical Security Audit | 5/08/2019 |
| Internal Audit Report 2017-25 | Audit of the Management of Third-Party Service Providers | 1/07/2019 |

Summary of Recommendations Related to Significant Abuses and Deficiencies Disclosed in Internal Audits During Fiscal Year 2018-2019

No significant abuses or significant abuses or deficiencies were identified by the Program Audit Unit.

Summary of Significant Recommendations Pending Corrective Action in Fiscal Year 2018-2019

Section 20.055, F.S., requires the identification of each significant recommendation described in previous annual reports on which corrective action has not been completed. Some of the findings presented in Report Number 2016-8787 Audit of Department Cash Receipts Process, Report Number 2017-025 Audit of the Management of Third-Party Service Providers, and Report Number 2017-046 Audit of Private Prison Contract Monitoring remain open.

Performance Measurement Review

None of the performance measures contained in the department's Long-Range Program Plan document or the department's key performance indicators were modified during the fiscal year. Therefore, the Program Audit Unit did not perform a separate review of

performance measures. During the internal audits, any related performance measures were reviewed as a part of the audit.

Risk Assessment and Planning for Fiscal Year 2019-2020

The Program Audit Unit's annual work plan is based on the results of the annual risk assessment. The Program Audit Unit collaborated with the Strategic Planning and Project Management Office (SP&PMO) to facilitate management's participation in the annual risk assessment process. Sessions for each division were co-led by the SP&PMO and the Program Audit Unit. The purpose of developing the annual work plan is to identify, select, and plan the allocation of resources for the upcoming fiscal year. Consideration is given to activities related to the development, assessment, and validation of performance measures during the planning phase. The Program Audit Unit's goal is to provide, as efficiently as possible, the greatest level of assurance and consulting services to the department.

Retirement Compliance Audit Unit

Section 121.193, F.S., outlines the Department of Management Services responsibilities related to the conduct of external compliance audits of payroll and personnel records of participating agencies in the Florida Retirement System. This section further states:

- Audits under this section shall be made to determine the accuracy of reports submitted to the Department of Management Services and to assess the degree of compliance with applicable statutes, rules, and coverage agreements;
- Audits under this section shall be scheduled on a regular basis, as a result of concerns known to exist at an agency, or as a follow-up to ensure agency action was taken to correct deficiencies found in an earlier audit;
- Participating agencies shall furnish the Department of Management Services with information and documents that the department requires to conduct the audit and may prescribe by rule the documents that may be requested;
- The Department of Management Services shall review the agencies operations concerning retirement and social security coverage and discuss preliminary findings with agency personnel at the close of an audit; and,
- An audit report of findings and recommendations shall be submitted to department management and an audit summary letter noting any concerns and corrective action shall be submitted to the agency.

The Department of Management Services has delegated the statutory responsibilities outlined above to the Retirement Compliance Audit Unit. The Retirement Compliance Audit Unit is assigned to the Internal Audit Section of the Office of Inspector General.

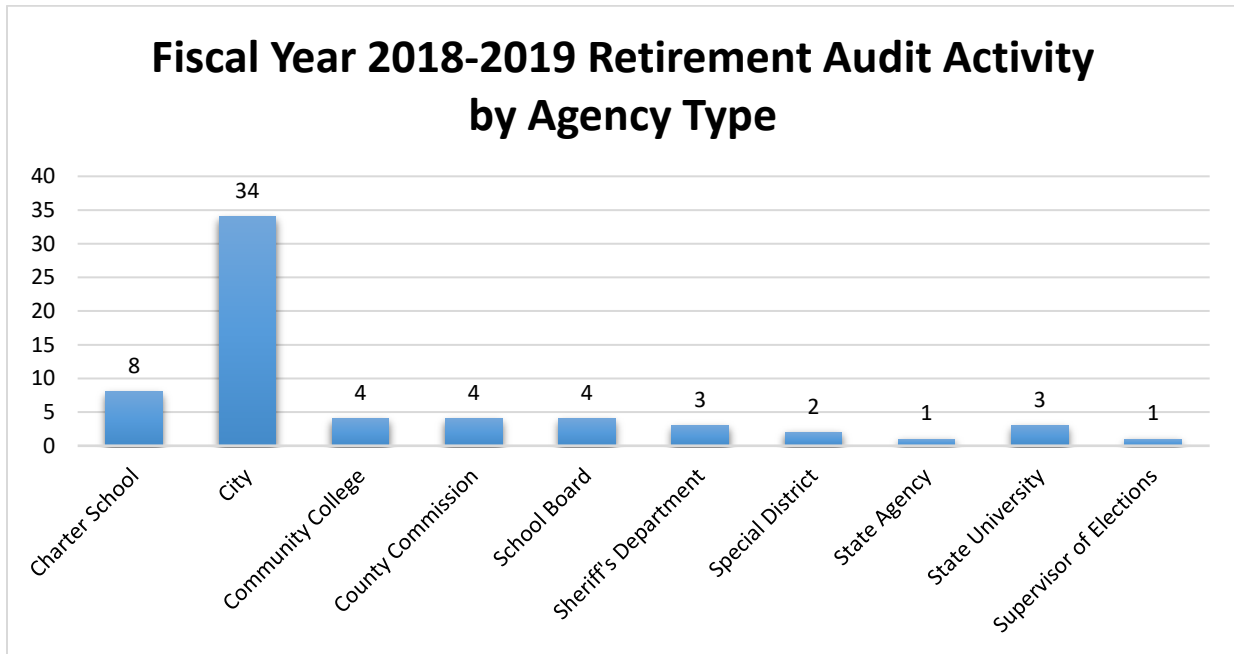
Summary of Retirement Compliance Audits for Fiscal Year 2018-2019

During Fiscal Year 2018-2019, the Retirement Compliance Audit Unit completed 64 compliance audits of entities participating in the Florida Retirement System. These audits assessed the degree of compliance with applicable statutes, rules, and coverage agreements and determined the accuracy of payroll, personnel, and earnings records.

| Entities Audited by the Retirement Compliance Audit Unit | |
|--|---------------------|
| Agency | Final Report Issued |
| Hillsborough Community College | 07/10/18 |
| Broward County School Board | 07/19/18 |
| Pemayetv Emahakv, Inc | 07/19/18 |
| Polk County Board of County Commissioners | 07/23/18 |
| City of Fruitland Park | 07/25/18 |
| Sumter County Supervisor of Elections | 07/26/18 |
| City of Bradenton | 08/02/18 |
| Lakeland Area Mass Transit District | 08/28/18 |
| Taylor Coastal Water & Sewer District | 08/28/18 |
| St. Johns County Board of County Commissioners | 09/11/18 |
| Valencia College | 09/12/18 |
| Putnam Edge High School | 09/17/18 |
| Palm Beach County Sheriff's Department | 09/27/18 |
| Polk County School Board | 09/27/18 |
| City of Webster | 09/28/18 |
| University of North Florida | 10/08/18 |
| City of Archer | 10/19/18 |
| Town of Redington Shores | 10/23/18 |
| Town of Lake Placid | 11/05/18 |
| Florida Atlantic University | 11/30/18 |
| St. Petersburg College | 11/30/18 |
| Florida Fish & Wildlife Conservation Commission | 12/03/18 |
| Town of Inglis | 12/07/18 |
| University of South Florida | 12/12/18 |
| Marion Charter School | 12/14/18 |
| Village of El Portal | 12/17/18 |
| Town of Greenville | 12/20/18 |
| Chautauqua Learn and Service Charter School | 12/21/18 |
| Town of Kenneth City | 12/27/18 |
| Town of Melbourne Beach | 01/10/19 |
| City of Wilton Manors | 01/22/19 |
| City of Crystal River | 02/05/19 |
| City of Bonita Springs | 02/08/19 |
| City of Bunnell | 02/11/19 |
| City of West Miami | 02/13/19 |
| Student Leadership Academy of Venice | 02/13/19 |

| Entities Audited by the Retirement Compliance Audit Unit | |
|---|----------------------------|
| Agency | Final Report Issued |
| City of Daytona Beach Shores | 02/19/19 |
| City of Florida City | 02/27/19 |
| City of Graceville | 02/28/19 |
| Siatech Gainesville | 03/01/19 |
| Central Charter School | 03/05/19 |
| Town of Wausau | 03/13/19 |
| City of Macclenny | 03/18/19 |
| City of West Melbourne | 03/22/19 |
| City of Melbourne | 04/01/19 |
| Town of Yankeetown | 04/01/19 |
| Town of North Redington Beach | 04/02/19 |
| City of Coconut Creek | 04/04/19 |
| City of Pembroke Pines Charter Elementary School | 04/05/19 |
| City of Perry | 04/05/19 |
| City of Blountstown | 04/26/19 |
| City of Umatilla | 05/01/19 |
| City of Riviera Beach | 05/13/19 |
| Students in the Arts | 05/15/19 |
| Osceola County Board of County Commissioners | 05/16/19 |
| Town of Highland Beach | 05/16/19 |
| City of Cocoa | 05/17/19 |
| Florida State College at Jacksonville | 05/17/19 |
| Orange County Sheriff's Office | 06/14/19 |
| City of Miami Gardens | 06/18/19 |
| Flagler County School Board | 06/27/19 |
| Broward County Sheriff's Department | 06/28/19 |
| Lake County Board of County Commissioners | 06/28/19 |
| St Lucie County School Board | 06/28/19 |

The 64 completed retirement compliance audits are broken down by the following agency types participating in the Florida Retirement System.



Summary of Significant Recommendations from External Compliance Audits

During the fiscal year, the Retirement Compliance Audit Unit identified compliance issues in three primary areas: workers' compensation adjustments; unreported employees; and unreported wages. Audit recommendations pertaining to these three areas were made to a significant number of participating agencies.

- **Workers' Compensation Adjustments** - Effective July 1, 1990, a member is entitled to retirement service credit for the period of time temporary total or temporary partial workers' compensation payments are received provided the employee, upon recovery, immediately returns to active employment for one calendar month or is approved for disability retirement. When these conditions are met, the employer is required to make retirement adjustments if the employee's earnings during this period were reported at less than his/her regular pay rate.

The Retirement Compliance Audit unit made the following recommendations related to workers' compensation adjustments:

- The agency should make workers' compensation adjustments for the employees identified, for the noted periods, if workers' compensation retirement credit eligibility requirements were met.

- The agency should review its records and make adjustments for all employees who received workers' compensation indemnity payments for lost wages and met the eligibility criteria for workers' compensation retirement credit.
- **Unreported Employees** - An employee filling a regularly established position should be reported to the Division of Retirement for retirement coverage, even if the employee is serving a probationary period. An employee who fills a temporary position in a local agency that will exist longer than six months should be reported to the Division of Retirement, unless the position is exempt.

Additionally, Investment Plan members cannot return to employment with a Florida Retirement System participating employer until they have been retired for six calendar months (i.e., six calendar months following the month in which a distribution was taken). If they are reemployed by a Florida Retirement System participating employer within the six-calendar month period after taking a distribution (retiring), their retirement will be voided. Additionally, during the 7th to 12th calendar months after retirement, no additional Investment Plan distributions are permitted, and they cannot receive Health Insurance Subsidy payments until they either terminate employment or complete a total of 12 calendar months of retirement.

The Retirement Compliance Audit Unit made the following recommendations related to unreported employees:

- The agency should make adjustments to report the employee or employees identified for retirement coverage effective their initial date of hire because they were hired for a period exceeding six calendar months or make adjustments to report the employee or employees identified for retirement coverage on the first day of the seventh calendar month or on the first day of the month following the month in which the decision was made to extend the position beyond six months, if earlier.
- The agency should review its records and make adjustments for any other employees who were incorrectly excluded from retirement coverage based on the above criteria.
- The State Board of Administration should review any Investment Plan employees identified during an audit to confirm that a violation has occurred. The State Board of Administration will contact the employees and the employers, if needed, regarding the next steps.
- The agency should review its records to identify any other unreported employees who have retired and worked within the first six months of their Investment Plan distribution and contact the State Board of Administration to determine if there are additional reemployment violations.

- **Unreported Wages** - All payments that meet the definition of compensation as provided in the Florida Retirement System Rules, section 60S-6.001(16)(a), Florida Administrative Code, must be reported for retirement purposes. An employee filling a regularly established position who performs additional duties for the same Florida Retirement System employer is considered to be filling a regularly established position for the total employment; therefore, all earnings should be reported for Florida Retirement System coverage.

The Retirement Compliance Audit Unit made the following recommendations related to unreported wages:

- The agency should make adjustments to report the employee or employees identified who have received payments that meet the definition of compensation.
- The agency should make adjustments to report the payments that meet the definition of additional pay for additional duties.

Revenue Adjustments to the Florida Retirement System Trust Fund for Fiscal Year 2018-2019

Compliance audits resulted in revenue adjustments of \$706,395 to the Florida Retirement System Trust Fund. The revenue adjustments made by the agency may be for audits completed in prior fiscal years. Twenty-seven agencies still need to make adjustments based on the findings identified as a result of their retirement compliance audit.

Risk Assessment and Planning for Fiscal Year 2019-2020

The Retirement Compliance Audit Unit's annual audit schedule is based on the results of an annual risk assessment. The risk assessment consists of surveying retirement management to identify agencies where risk of non-compliance with Florida Retirement Plan requirements is higher. Additionally, the Retirement Compliance Audit Unit considers prior and current audit findings, previous audits performed, and agency size and type.

Quality Assurance and Improvement Program

In order to provide reasonable assurance that the Internal Audit Unit's work conforms to the *International Standards for the Professional Practice of Internal Auditing* and internal policies and procedures, IIA Standard 1300 requires that the inspector general develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. The QAIP consists of both an internal quality assurance program, that is ongoing and includes continuous supervision and internal reviews, and external quality assessments conducted by an independent assessor. The

Auditor General is responsible for conducting external assessments of the Internal Audit Unit every three years in accordance with section 11.45, F.S.

Internal Quality Assurance Program

During this fiscal year, as a part of the Internal Audit Unit's internal quality assurance program, the work papers of two audits, (Program Audit – *Termination and Transfer of Employee Process* and Retirement Compliance Audit – *Okaloosa County School Board*) were reviewed for compliance with auditing standards and internal audit policies and procedures. The reviews noted deficiencies regarding insufficient documentation. These deficiencies were subsequently addressed.

Also, in preparation for the Auditor General's quality assessment, an internal audit quality assurance assessment was performed which concluded that the Internal Audit Unit generally complied in all material aspects with the *International Standards for the Professional Practice of Internal Auditing* and section 20.055, F.S. This report identified areas of improvements that were subsequently addressed.

External Quality Assurance Program

During the fiscal year, the Auditor General's office conducted an external assessment of the OIG. Auditor General report No. 2019-040 Department of Management Services - Office of Inspector General's Internal Audit Activity - Quality Assessment Review issued on October 30, 2018, contained an opinion that the quality assurance and improvement program related to the OIG's internal audit activity was adequately designed and complied with during the review period to provide reasonable assurance of conformance to applicable professional auditing standards and the Code of Ethics issued by the Institute of Internal Auditors. The report also stated that the OIG generally complied with those provisions of section 20.055, F.S., governing the operation of State agencies' offices of inspectors general internal audit activities.