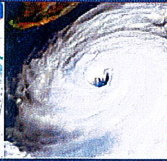


Florida Department  
of Financial Services



Alex Sink  
Chief Financial Officer



Office of Inspector General

Robert E. Clift  
Inspector General

# Annual & Long Term Audit Work Plan Fiscal Years 2009/2010 & 2010/2011

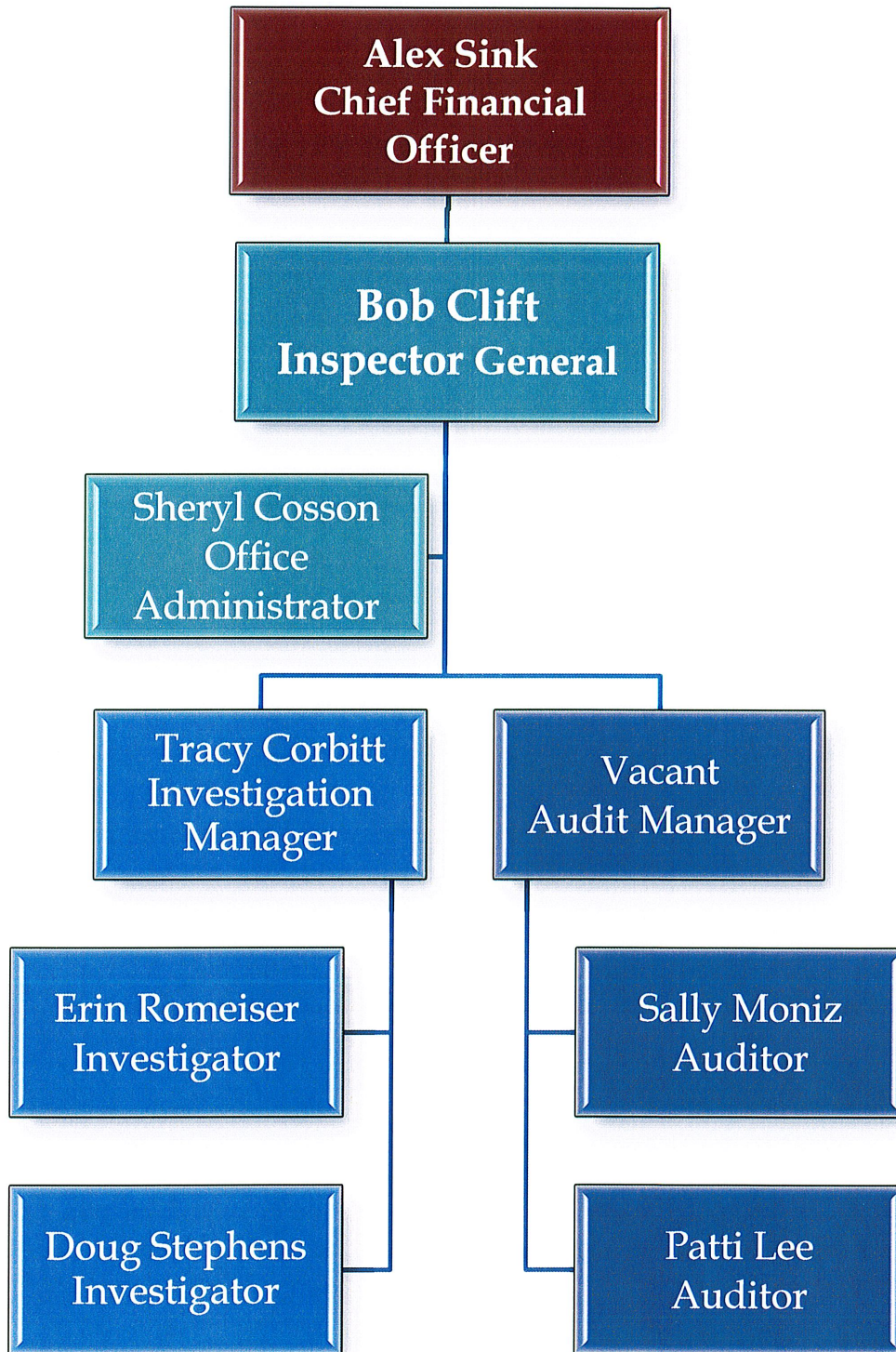
*“Our Mission is to promote integrity,  
Accountability and process improvement  
in the Department of Financial Services.”*

# TABLE OF CONTENTS

<b>ORGANIZATION CHART</b> .....	3
<b>MISSION STATEMENT AND VISION</b> .....	4
<b>DUTIES AND RESPONSIBILITIES</b> .....	4
Organization .....	4
Investigation Section.....	4
Audit Section .....	4
Engagement Types.....	5
<b>THE WORK PLAN</b> .....	5
Purpose and Scope .....	5
Requirement.....	6
Description.....	6
Methodology .....	7
<b>EXHIBITS</b>	
Exhibit A – Audit Section Projects FY 09/10 .....	10
Exhibit B – Audit Section Projects FY 10/11 .....	11
Exhibit C – Audit Section Projects FY 09/10 .....	12
Exhibit D – Audit Section Projects FY 09/10 .....	13
Exhibit E – Audit Section Projects FY 09/10 .....	14

# OIG ORGANIZATION

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



# MISSION STATEMENT AND VISION

## OIG MISSION STATEMENT & VISION

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

Our Vision is to provide objective, fact-based perspectives to the DFS team. We strive to be:

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

## DUTIES & RESPONSIBILITIES

### ORGANIZATION

The Inspector General's (IG) duties and responsibilities are specified in Section 20.055, Florida Statutes. These duties and responsibilities are carried out within the Audit or Investigation Sections.

### INVESTIGATION SECTION

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 public. Investigations are designed to deter, prevent and eradicate fraud, waste, mismanagement, misconduct and other abuses.

### AUDIT SECTION

The work of the Audit section is the focus of the Annual and Long Term Work Plan. The Audit Section functions 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 to provide greater assurances the Department's goals and objectives are achieved. This Section performs Compliance, Performance and Comprehensive engagements, along with consulting services.

**Audit Engagements** are performed in accordance with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors (IIA) and 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.

**Consulting Services** are provided as requested by management. Consulting services are intended to provide value added services to management through various alternative methods such as counsel, advice, facilitation, inspection, reviews and training.

## **ENGAGEMENT TYPES**

**Compliance:** Compliance engagements are performed to determine if the program or process is complying with applicable laws, rules, and regulations to include an evaluation of the adequacy of the control framework to manage the risk of not achieving the goals and objectives of the program or process. Compliance engagements may include a determination of the reliability and validity of data and the adequacy of controls to ensure information security. Generally, compliance audits are the least complex type of audit engagement and requires less time to perform than performance or comprehensive audit engagements.

**Performance:** Performance engagements analyze the efficiency and economy of programs or processes that are performed by the program area. Performance engagements also include each of the objectives of a compliance engagement.

**Comprehensive:** Comprehensive evaluations assess the effectiveness of the program or process in achieving the Department's goals and objectives. Comprehensive audits also include all of the objectives of a performance engagement. Consequently, comprehensive audits generally require the most time to perform.

## **THE WORK PLAN**

### **PURPOSE & SCOPE**

The OIG audit work plan serves to identify and plan for anticipated workload by staff in the Audit Section. The purpose of the work plan is to maximize available resources, so projects will provide the greatest benefit to the Department. Exhibit A identifies audits and consulting engagements to be completed during FY 2009/2010 (annual) and Exhibit B identifies engagements planned for FY 2010/2011 (long term). The exhibits identified above also include the projected staff time for each engagement. The illustration on the following page shows the calculation for estimating the available hours for OIG staff, consisting of two internal auditors and one audit director.

<b>Available Audit Hours</b>			
Total Available Hours (52 wks x 40 hrs)		2,080	
Less:			
Annual Leave	176		
Sick Leave	96		
Training	40		
Holidays	80		
Administration	<u>208</u>	-600	
Available Audit Hours/per FTE		1,480	
Audit Staff (2)@100%		x 2	2,960
Audit Director (1)@ 50%		x ½	<u>740</u>
Subtotal			<u>3,700</u>
Less:			
Work Plan			-100
Assisting Investigation Section & Special Projects			<u>-100</u>
<b>Total Audit Hours Available</b>			<u><b>3,500</b></u>

**REQUIREMENT**

Section 20.055(5)(h), Florida Statutes, requires the Inspector General to develop long-term and annual audit work plans based on findings of periodic risk assessments of Department activities, processes and programs. The plans show the individual engagements and consulting services to be conducted during each year and related resources to be devoted to the respective audits. In addition, this statute requires that the work plan be submitted to the Chief Financial Officer for approval, and that a copy of the approved work plan shall be submitted to the Office of the Auditor General.

**DESCRIPTION**

The work plan has many purposes and intended benefits that include:

- Assisting the Department in meeting its mission by planning activities through a risk-based process to provide reasonable assurances the Department is achieving its goals and objectives,
- Informing Department managers, outside agencies and other entities of our mission, activities and work planned audit coverage; and,
- Familiarizing Department staff with the functions and services we provide.

## **METHODOLOGY**

The audits on the work plan were identified based on a risk assessment of the characteristics of each Division's environment and the activities the division performs.

We have begun transitioning to a process-based risk assessment methodology. Ultimately, this risk assessment methodology will mirror the risk assessment methodology to be utilized by management, and as described in AP&P 1-02, Internal Controls Policy (DRAFT). This policy requires that risks associated with not achieving intended objectives of each process performed by the Department be identified and appropriately mitigated through development and implementation of procedures. Our evaluation of associated risks was based on objectives outlined in Section 215.86, Florida Statutes. Specifically, this statute requires that state agencies establish and maintain management systems and controls that promote and encourage:

- compliance with laws;
- economic, efficient and effective operations;
- reliability of records and reports; and
- safeguarding of assets.

We were unable to fully incorporate a process-based risk assessment methodology this year because the Department has not yet transitioned to process-based management. Consequently, the risk assessment utilized to produce the current work plan is a blend of the traditional organization-unit based risk analysis and a process-based risk analysis.

### **Quantitative Analysis**

The risk assessment used to produce this work plan included a quantitative analysis of Division-level operations data and a qualitative analysis based on information requests and interviews with Division Directors and their staff. The quantitative analysis utilized information from a variety of Department databases to assess the risks inherent to the activities performed by each Division. These databases included those associated with contracting, revenue collections, and legislative appropriations. As shown below, selected data elements, such as the number of contracts and monetary receipts were assigned to risk factors and then allocated to each Division. These risk factors were identified by OIG staff and based on characteristics of activities that serve to increase risks of not fully achieving intended objectives. For example, monetary transactions were selected as a risk factor because of the extent of the adverse impact if these transactions were not adequately safeguarded or accurately recorded.

## Scoring

Maximum point values were assigned to each data element, with the total of the maximum value for the data elements for each risk factor assigned as the maximum risk factor score. Each Division was assigned a score for each risk factor by multiplying the maximum score for each associated data element by the ratio of the Divisions total to the total for the highest scoring Division. The point values for each of the data elements are shown below:

<b>Data Elements/Risk Factors</b>	<b>Points</b>
<b>Revenue Transactions</b>	
<i>Number of revenue receipts</i>	<b>15</b>
<i>Value of revenue receipts</i>	<b>10</b>
<b>Reliance on Information Technology</b>	
<i>Number of applications used</i>	<b>10</b>
<i>Number of applications with confidential information</i>	<b>10</b>
<b>Assets under Management</b>	
<i>FTE count</i>	<b>15</b>
<b>Operational/Geographical Dispersion</b>	
<i>Number of active contracts</i>	<b>5</b>
<i>Value of active contracts</i>	<b>5</b>
<i>Number of operating locations</i>	<b>5</b>
<b>Prior Audits</b>	
<i>Internal Audits</i>	<b>15</b>
<i>External Audits</i>	<b>10</b>

A summary of the results of this analysis can be found on Exhibits C and D.

## Qualitative Analysis

To assist in the completion of our risk assessment and identification of audits for the annual and long-term work plan, we also performed a qualitative risk analysis. To perform this analysis, we interviewed Division Directors with highest risk scores from our Department-level quantitative analysis. A summary of the input received from Division Directors on the activities and processes with the highest perceived risk is provided as Exhibit E.

Following receipt of input from each Division Director and completion of selected interviews, we presented to the Deputy Chief Financial Officers the results of both our Department-level quantitative analysis and our Division-level qualitative analysis, along



with a preliminary list of identified audits. The purpose of this presentation was to describe the risk assessment process and solicit input on the activities and processes that they perceived to present the greatest risk to the Department. The Deputy Chief Financial Officers did not propose a change in either the methodology or the proposed resulting work plan topics. These results were also presented to the Department's Chief of Staff.

# AUDIT SECTION PROJECTS

## JULY 1, 2009 – JUNE 30, 2010

### EXHIBIT A

Program Area	Engagement Objectives	Estimated Audit Hours
Division of Agent & Agency Services	<b><u>Comprehensive Engagement</u></b> of the Division of Agent and Agency Services	1,500
Division of Workers' Compensation	<b><u>Performance Audit</u></b> of the Division of Workers' Compensation processes used to receive and disburse payments relating to the Administrative Trust Fund	750
Division of State Fire Marshal	<b><u>Performance Audit</u></b> of the Division of State Fire Marshal's, Fire College operations	750
Division of Information Systems	<b><u>Consultation Services</u></b> provided to the Division of Information Systems to assists in the development of a system of information system access controls	500

# AUDIT SECTION PROJECTS

## JULY 1, 2010 – JUNE 30, 2011

### EXHIBIT B

Program Area	Engagement Objectives	Estimated Audit Hours
Division of Insurance Fraud	<u>Comprehensive Engagement</u> of the Division of Insurance Fraud	1,500
Division of Legal Services	<u>Performance Audit</u> of the Division of Legal Services Service of Process	750
Division of Consumer Services	<u>Performance Audit</u> of the Division of Consumer Services Call Center Consolidation	750
As Requested	<u>Consultation Services</u> – Provided to a Division as requested	500

## Department Level Risk Assessment Scores Exhibit C

<i>Risk Factors</i>	Operational/ Geographical Dispersion (15 pts)	Revenues (25pts)	Reliance on Info Technology (20 pts)	FTE Under Mgmt Control (15 pts)	Prior Audits (25 pts)	Total
Workers' Compensation	8	15	20	15	10	68
Insurance Agent & Agency Services	3	17	5	7	25	57
State Fire Marshal	15	1	2	11	25	54
Legal Services	1	3	2	4	25	35
Insurance Fraud	4	0	4	8	15	31
Consumer Services	3	0	5	7	10	25
Accounting & Auditing	1	11	4	9	0	25
Rehabilitation & Liquidation	1	1	7	0	15	24
Information Systems	6	0	5	10	0	21
Treasury	2	3	8	3	0	16
Funeral, Cemetery & Consumer Services	0	1	2	1	10	14
Administration	1	0	6	5	0	12
Risk Management	5	1	2	4	0	12

# Department Level Risk Assessment Data

FY 2007/2008

Exhibit D

Divisions	Risk Factors/Data Elements							
	Operational/Geographic Dispersion			Revenue Transactions		Reliance on Information Technology		FTE Under Mgt Control
	Contract Value	Contract Count	Operating Locations Count	Transaction Value	Transaction Count	Application Count	Applications with Confidential Data	FTE Count
Workers' Compensation	\$3,964,986	118	15	\$232,243,346	110,655	70	38	360
Agent & Agency Services	\$3,403,710	19	10	\$60,132,791	214,158	15	11	164
State Fire Marshal	\$25,760,457	152	23	\$3,339,151	17,687	10	2	255
Legal Services	\$440,943	26	1	\$2,916,427	39,622	5	2	88
Insurance Fraud	\$585,052	37	12	\$543,854	959	17	9	194
Consumer Services	\$660,027	9	10	\$83,498	1,075	16	11	175
Accounting & Auditing	\$1,954,802	24	1	\$316,013,850	11,126	11	6	221
Rehabilitation & Liquidation	\$109,379	3	2	\$29,799,472	4,153	26	12	8
Information Systems	\$13,050,200	111	1	\$0	0	23	6	250
Treasury	\$6,824,058	16	1	\$89,424,602	139	26	14	69
Funeral, Cemetery & Consumer Services	\$179,068	4	1	\$2,224,700	6,901	6	4	28
Administration	\$534,726	27	1	\$112,512	1,842	31	8	113
Risk Management	\$19,468,502	16	1	\$37,933,198	797	7	4	101
<b>Department Totals</b>	<b>\$76,935,910</b>	<b>562</b>	<b>79</b>	<b>\$774,767,402</b>	<b>409,114</b>	<b>263</b>	<b>127</b>	<b>2,026</b>

## Exhibit E

### Division-Level Risk Assessment

#### Deputy Chief Financial Officer – Brian London

#### Workers' Compensation:

The Division Director reported the management team conducted an enterprise wide evaluation of our residual risks and identified processes/activities where risk may adversely impact the achievement of the Department's mission and recommended the following areas for audit or evaluation:

- **Workers' Compensation Administration Trust Fund Assessment.** The Division of Workers' Compensation is tasked with calculating, billing and collecting premium assessments from workers' compensation insurers and self-insurers. Assessments are calculated annually and collected quarterly. In order to complete our premium assessments, the Division requires insurers to submit their financial data as reported to the NAIC. Assessment calculations for self-insurers is more complex as self-insurers are obligated to report their payroll and loss data to the Division so that we can calculate what each self-insurer's premiums would have been had they purchased a workers' compensation policy. We would like a review of our current processes and electronic systems.
- **Statutory Transfer of Funds to Other State Agencies.** The Workers' Compensation Administration Trust Fund collects premium assessments from workers' compensation insurers and self-insurers. These funds are used to pay for the costs associated with administering the regulatory and enforcement components of the workers' compensation system. In addition to funding the Division of Workers' Compensation, assessment funds are also distributed to the Department of Administrative Hearings (Office of the Judges of Compensation Claims), the 1st District Court of Appeals, the Department of Education (Bureau of Vocational Rehabilitation), the Agency for Health Care Administration, the Department of Business and Professional Regulation (Child Labor and Farm Labor sections), and the Division of Insurance Fraud within the Department of Financial Services. We believe it may be prudent to verify that these funds are being used in accordance with statutory guidelines.
- **Confidential Data.** The Division of Workers' Compensation collects medical and financial data with regards to injured workers that is considered to be confidential. It would be helpful for your office to review our processes and procedures pertaining to confidential data.

## Exhibit E

### Division-Level Risk Assessment

- Division Paid Permanent Total Supplemental Benefits. Injured workers that were determined to be permanently and totally disabled prior to July 1, 1984, receive “supplemental” benefits from the Division of Workers’ Compensation. Currently, the Division pays an estimated 2,000 injured workers these supplemental benefits on a bi-weekly basis. Florida law requires that these benefits be paid until the injured worker dies, settles their claim, becomes incarcerated, etc. The Division is required to monitor these conditions as well as make certain that it pays the correct benefit in accordance with statute and court rulings. It would be helpful for you to review our processes pertaining to the PT Supplement unit within our Division.

#### State Fire Marshal:

The Division Director responded with the following concerns:

- Funds management and accountability at the Fire College
- The amount of time it takes to turn around Domestic Security grant money to the Fire departments. Grants are based on Federal Fiscal year that is not aligned with the State Fiscal year. This minimizes the number of months in which to utilize the funds, especially in conjunction with the approval process to pass through the funds for local agencies.
- Fire Fighter Safety Program per Florida Statutes. Fire Fighter Safety was moved to the Division from the Department of Labor in 2002. We are not legislatively appropriated any FTE’s to perform the role. We were forced to reallocate two existing FTE’s to that function, but that of course, is not sufficient to meet the entire statutory mandate.

#### Insurance Fraud:

Because of a recent accreditation by the Commission for Florida Law Enforcement Accreditation, the Division Director believes all inherent risk have been adequately mitigated. No specific areas of concern were identified.

#### Deputy Chief Financial Officer- Tammy Teston

#### Agents & Agency Services:

The Division Director believes the risks associated with dependency on other Divisions and activities should be examined. In particular, consistency of laws and rules and cost/time to prosecute a case were identified:

- Online Licensing System
- Inter-dependencies with other Divisions and Agencies:
  1. Administration processes fines
  2. Information Services- Administers process systems

## Exhibit E

### Division-Level Risk Assessment

3. Fines collected through Legal Services
4. OIR
5. FDLE - Fingerprinting for agents
6. Division of Fraud - Suspected fraud cases

#### **Consumer Services:**

The effectiveness of, and efficiencies achieved by, 2009 call center consolidation.

The Division Director believes the greatest risk to the Division is the consulting contract with Infinity for "Service Point," the consumer complaint database.

#### **Deputy Chief Financial Officer – Donna O’Neal**

##### **Information Systems**

The Division Director has requested assistance in redesigning processes associated with IT access control. Access control remains an area of unresolved concern despite a history of Auditor General audit findings and steps intended to correct these findings.

#### **General Counsel – Ben Diamond**

##### **Legal Services:**

The Division Director has identified the Service of Process Section, a centralized depository for handling all legal process (summons & complaints or subpoenas) served on the agency, or agency employees, as his primary risk. This function includes processing over 40,000 payments annually.