

BILL McCOLLUM
ATTORNEY GENERAL
STATE OF FLORIDA

OFFICE OF THE ATTORNEY GENERAL

James D. Varnado
Inspector General

PL 01, The Capitol
Tallahassee FL 32399-1050
Telephone (850) 414-3456
Fax (850) 922-3854

April 2, 2008

Joint Legislative Auditing Committee
Room 876 Claude Pepper Building
111 West Madison St.
Tallahassee, FL 32399-1400

Re: Six-Month Status of Follow-Up Report on the Auditor General's Operational Audit of the Department of Legal Affairs Selected Administrative Functions and Follow-Up on Selected Prior Audit Findings (Audit Report 2008-021)

Dear Sirs,

In accordance with Section 20.055(5)(g), Florida Statutes, the Office of the Attorney General Office of Inspector General has performed procedures to monitor, assess and report the six-month status of corrective actions taken related to the recommendations set forth in the Auditor General Report 2008-021.

The results of this assessment are reported in our attached Report 2007-14 titled *Follow-Up Report on the Auditor General's Operational Audit of the Department of Legal Affairs Selected Administrative Functions and Follow-Up on Selected Prior Audit Findings*.

If you should need additional information, please call me at (850) 414-3456.

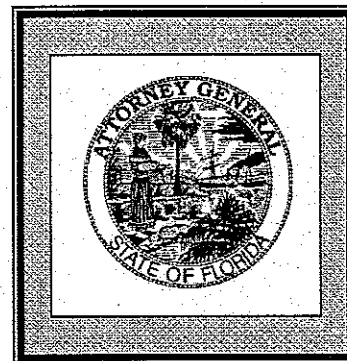
Respectfully,

A handwritten signature in black ink that reads "James D. Varnado/VF".

James D. Varnado

JV/jkg

Attachment



Follow-Up Report on the Auditor General's Operational Audit of the Department of Legal Affairs Selected Administrative Functions and Follow-Up on Selected Prior Audit Findings

April 2, 2008

Assignment No. 2007-14

Purpose

This report advises the Attorney General and the Legislative Auditing Committee of the six-month status of corrective actions related to findings reported by the *Auditor General's Operational Audit No. 2008-021 of the Department of Legal Affairs Selected Administrative Functions and Follow-up on Selected Prior Audit Findings* released October 3, 2007.

Standards

Our work was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as published by The Institute of Internal Auditors, Inc.

Scope and Objectives

The scope of this review is to determine the six-month status of corrective actions and/or management decisions related to findings reported in the Auditor General's Operational Audit 2008-021.

Methodology

As part of this assignment Office of Inspector General staff:

- Reviewed prior Auditor General's Audit Report 2008-021 and prior responses;
- Requested Departmental staff complete a Corrective Action Plan (CAP) for each audit finding reported in the Auditor General Report 2008-021;
- Conducted interviews, reviewed documents, made observations and performed other procedures as necessary to objectively corroborate management's assertions relating the six-month status of audit findings reported in the Auditor General Operational Audit 2008-021.

Background

The Division of Administrative Services in the Office of the Attorney General/Department of Legal Affairs includes the Bureau of Finance and Accounting, the

Bureau of General Services, the Bureau of Operations and Budget, the Bureau of Personnel, and the Bureau of Training. The Director of Administrative Services reports to the Deputy Attorney General.

The Auditor General's audit focused on the Office of the Attorney General/Department of Legal Affairs administrative activities, including cash receipts, accounts receivable, records management, budget management, and cost allocation.

Results, Findings, Recommendations, and Current Status

Based on our review of the six-month status of findings and related corrective activities performed by the Department in response to Auditor General Report No. 2008-021, the Office of Inspector General presents the current status to each of the Auditor General findings below.

Auditor General Audit Finding No. 1:

The Department did not have records supporting the basis for the calculation of hourly rates used for billing legal services to State agencies.

In Summary: Hourly rates for legal services billed to contracting State agencies did not reflect the cost of legal services.

Auditor General Recommendation: The Department should continue current efforts to establish billing rates that reflect the current cost of services. We also recommend that the sufficiency of the rates be evaluated on an annual basis and that documentation be maintained to demonstrate that rates are consistent with costs.

OAG Response as of September 28, 2007:

The Department concurs with the finding. As noted in the audit report, the Department analyzed the rate structure and has developed new rates reflecting the current cost of providing services. These new rates were implemented on July 1, 2007. The Department will evaluate these rates on an annual basis and will continue to develop the review process.

Status as of March 2008: As of May 15, 2007, the Department approved a change in rates following a review of the rate structure and the cost of providing legal services to agencies through retainer contracts. The OAG will monitor the rate annually and consider adjusting rates when necessary.

Auditor recommends this finding be monitored. This finding is conditionally implemented based on future annual rate analysis.

Auditor General Audit Finding No. 2:

Application Development and Administration programming staff were assigned incompatible system-related duties.

In Summary: Application Development and Administration staff had the rights to modify and move into production Time Tracking and Caseload programs. Some staff programmers had unlimited access privileges allowing them the capability to input, edit, update, and delete production data.

Auditor General Recommendation: The Department should review Application Development and Administration staff access privileges to ensure access is limited to that needed for their areas of responsibility. Specifically, Application

Development and Administration programming staff should not be able to move programs into production and should not have ongoing access allowing the update of production data.

OAG Response as of September 28, 2007:

Complete separation of duties in the Lotus Notes environment is more difficult and costly than in most application environments, due to the fact that the database and application design are stored in the same structure as the data itself. Because of this, the access that Notes System Administrators must have in order to perform duties such as backup/recovery also gives them access to modify the application and data. Similarly, the access that Notes Application Developers must have to be able to modify the application design also gives them access to modify the data. The agency has mitigated the risks by instilling the following controls to augment the agency's ability to detect, deter, and correct any inappropriate use of the applications and data; review and oversight of the time tracking and caseload data within the program areas; oversight of agency billing by the Division of Administration; as well as restricting information technology access only as needed to appropriate technical staff.

Status as of March 2008: Management relies upon various internal controls and oversight to mitigate associated risk. Additional subsequent review of existing access rights by Information Technology staff resulted in further restrictions for three involved in the Notes Environment.

Auditor concludes this finding was not implemented based on system constraints. Management has accepted the risk that

system constraints within Lotus Notes prevent implementation.

Auditor General Audit Finding No. 3:

The Department did not obtain appropriate approval from the Executive Office of the Governor for a temporary transfer of moneys. Additionally, the Department did not properly account for interfund transfers made to offset temporary operating resource deficiencies in the Legal Services Trust Fund.

In Summary: The Department made temporary interfund transfers without the proper authority to do so and without approval.

Auditor General Recommendation:

The Department should ensure that, in instances in which temporary transfers are necessary to meet operating requirements, appropriate prior approval from the Executive Office of the Governor is obtained and interfund receivables and payables are properly recorded in the accounting records. Furthermore, the Department should assess current funding and collection processes for legal services and determine a long-term solution to address the funding needs of the Trust Fund.

OAG Response as of September 28, 2007:

The Department concurs and has obtained authorization from the Governor for temporary transfers to cover the temporary deficiencies for the current fiscal year. As noted in Finding 1 above, the Department has completed an assessment of funding for legal services and has increased fees for service. This should help maintain the balance of the Legal Services Trust Fund. The Department will continue to seek a long-term solution to the recurring problem

of beginning each year with limited cash in the fund until agencies have paid for legal services.

Status as of March 2008: Budget amendment EOG#00026-001 provided temporary loan authority for the current fiscal year and was approved on 07/01/2007. The OIG concludes additional time is needed to evaluate the long-term needs of the department to determine whether further temporary transfers are needed.

Status: Partially implemented, Auditor recommends this finding remain open to assess long-term needs of Legal Services Trust Fund.

Auditor General Audit Finding No. 4: The Department did not ensure proper controls were in place for cash collections.

In Summary: Too many employees were authorized to accept cash collections. Some duties performed by Economic Crimes staff were incompatible whereby one employee created check logs, handled checks, and had authority over the database that is used to track amounts due to the Department.

Auditor General Recommendation: The Department should ensure that an appropriate separation of duties is established and maintained for all cash collection functions, checks are restrictively endorsed upon receipt, and original check logs are verified and retained. Additionally, the Department should limit the employees authorized to collect cash to only those essential to the various collection functions and maintain a control listing of those employees for both central and field offices.

OAG Response as of September 28, 2007:

Although the Department has had to rely on several levels of staff to assist in the collection of cash receipts due to limited resources, the Department agrees that employees authorized to collect cash receipts should be limited to key personnel. Accordingly, the Department will work with Division Directors to ensure that a complete list of staff responsible for cash collections is maintained and regularly updated for all programs. It is significant to note that the audit revealed no omitted checks or errors.

In addition, the Economic Crimes program has instituted procedures to review and maintain the original check listings from the field offices and the Antitrust program has obtained an endorsement stamp and has instituted procedures to restrictively endorse checks as they are received within the program.

Updated policies and procedures related to cash collections will be disseminated to ensure that staff in all programs are knowledgeable of the responsibilities associated with such collections, i.e. maintaining field office submissions, and secondary review of listings prior to submission to Finance and Accounting.

Status as of March 2008: Finance and Accounting Management reported that a meeting was conducted to discuss cash collection procedures and submission of a revised cash collection form. They sent an e-mail requesting other Attorney General divisions provide updates to the list of staff authorized to pick up cash/checks from the mailroom. Finance and Accounting also requested that only staff essential to complete this task be identified. The OIG

noted a list was obtained for Central Office staff.

As recommended by the Auditor General Report, Economic Crimes maintains the original cash collection form received from the field and forwards it along with the check to Finance and Accounting.

After a short period of separating the cash receipt duties, Economic Crimes staff acknowledged that on occasion the person who maintains the accounts receivable books also processes the checks.

The Antitrust division obtained and utilizes a restrictive endorsement stamp.

Status: partially implemented. In Finance and Accounting, the list of those authorized to collect mail (accept checks) needs to be expanded to include offices outside of Tallahassee. Economic Crimes still has potential separation of duties issues regarding check collection and accounts receivable maintenance.

Auditor General Audit Finding No. 5: Program areas did not always timely provide to Finance and Accounting documentation concerning the establishment of accounts receivable.

In Summary: Some Economic Crimes, Medicaid Fraud Control, and Antitrust receivables were not recorded in Finance and Accounting.

Auditor General Recommendation: The Department should take necessary action to ensure that accounts receivable are properly recorded in accounting records and accounting records are periodically

reconciled to subsidiary records maintained by the program areas.

OAG Response as of September 28, 2007:

The Department will review, update and implement revised procedures for recording accounts receivable to ensure the timely and accurate submission of documentation to Finance and Accounting relating to the establishment of accounts receivable and will work to establish a process by which programs' internal receivables are reconciled to the accounting records.

Status as of March 2008: A form has been developed by Finance and Accounting for recording of new accounts receivable. At the time of this review, the Finance and Accounting Division began reconciling accounts receivable but the process is not complete for all divisions of the OAG.

Partially implemented. Auditor recommends this finding remain open to allow time for all divisions to reconcile accounts receivable.

Auditor General Audit Finding No. 6: Department accounting processes for the write-off of receivables did not provide for the separation of incompatible duties. Additionally, Department accounting policies and procedures did not provide for sufficient supervisory approval of receivable write-offs.

In Summary: Attorneys were performing incompatible duties of collecting cash and submitting receivables to Finance and Accounting for write-off without supervisory review. Some Crime Compensation accounts and Economic Crimes cases were written off by Finance and Accounting without approval. Finance

and Accounting duties were not separated properly to honor good internal controls.

Auditor General Recommendation: The Department should take necessary action to ensure appropriate justifications for write-offs are obtained from attorneys prior to submitting accounts to the Department of Financial Services for further action. Additionally, policies and procedures should be enhanced to require program-level supervisory approval for receivable write-offs as a means to reduce the risk of loss. Such approvals should be documented on all write-off justifications provided to Finance and Accounting. Furthermore, the Department should ensure that an appropriate separation of duties or an adequate compensating control is established for the receivables write-off process within Finance and Accounting. The Department should also ensure that it is not duplicating DFS collection efforts on any account.

OAG Response as of September 28, 2007:

The Department will review the procedures for write-offs of accounts receivable. The limitation of staff authorized to collect cash receipts, as referred to in our response to Finding 4, will help alleviate incompatible duties. The Department will establish additional procedures which include higher levels of approval for the write-off of accounts receivable and will include program-level involvement. Final Department approval will rest with Finance and Accounting which will ensure sufficient documentation and justification is received prior to making a write-off request.

Status as of March 2008: As a result of our review we determined the process of writing off aged delinquent accounts

receivable has not been completed. According to Finance and Accounting, policy revisions will establish requirements for approval of writing accounts off by the appropriate Division Directors. Finance and Accounting is in the process of identifying staff to prepare write-off requests and implement review by F&A Director II prior to submission to DFS.

We determined that Economic Crimes has recently implemented a procedure which details collection efforts made before authorizing accounts to be written off. Other divisions are to follow by developing procedures for addressing collection efforts and to authorize accounts receivable to be written off.

According to Finance and Accounting, separation of duties issues will be addressed upon implementation of the requirement of Division Director approval of writing off accounts.

Partially Implemented: Auditor recommends this finding remain open until accounts are reconciled for all divisions. The OIG further recommends all forms and policies adopted by supporting divisions to be used in the process should be incorporated into Finance and Accounting's policies.

Auditor General Audit Finding No. 7:

The Legislature should consider amending or repealing provisions of Section 16.58, Florida Statutes, related to the Statewide Legal Research Bank.

In Summary: The Florida Legal Resource Center, which was created to facilitate interagency legal information sharing and communications, was not successful in

sharing legal information and is no longer needed.

Auditor General Recommendation: Given the current technological environment and availability of Web-based resources, as well as the expressed difficulty of obtaining research materials from governmental entities, the Legislature should consider amending or repealing those provisions of Section 16.58, Florida Statutes, related to the Statewide Legal Research Bank.

OAG Response as of September 28, 2007: We concur. The Department will continue to provide General Counsels for all State Agencies with legal resources via email and internet publications.

Status as of March 2008: As of February 28, 2008, the Florida Statute had not been amended. Changing the statute could possibly be addressed in a statute revision bill according to Administrative staff.

Not Implemented. Auditor recommends this finding remain open.

Auditor General Audit Finding No. 8: The Department did not consistently ensure that all employees affirmed the Department's Code of Ethics for Public Officers and State Employees upon hire and annually thereafter.

In Summary: The Auditor General found 8 of a sample of 30 employees did not have a record of signing the Code of Ethics for Public Officers and State Employees.

Auditor General Recommendation: The Department should ensure that each employee, upon hire and annually thereafter,

acknowledge the review of and intended compliance with the Code.

OAG Response as of September 28, 2007: The Department concurs and has already taken action to ensure that each employee, upon hire and annually thereafter, acknowledges the review of and intended compliance with the Code.

Status as of March 2008: The Human Resources Manager reported they strengthened their employee review and acknowledgement of all OAG policies, including the Code of Ethics. They reported the agency has also developed a new electronic OAG Policy Manual which incorporates an automatic notification and reporting of employee policy acknowledgements for all new employees and for each annual period beginning Jan 1, 2009.

A review of certifications by Information Technology staff indicated compliance for most new employees, however; certifications were not provided for previously employed staff.

Status: Partially implemented. The Department needs to follow up on annual renewal of Code of Ethics acknowledgments.

Auditor General Audit Finding No. 9: The Department did not always ensure compliance with established policies and procedures for the use of cellular telephones. Additionally, policies and procedures for the use of wireless communication devices should be enhanced to include independent or supervisory review of usage.

In Summary: The Auditor General found some users did not identify personal calls on the invoices, some users did not return certified invoices to Finance and Accounting within two weeks, and some substantial personal use of State cell phones was found. In addition, Department accounting policies and procedures did not require that someone other than the user review wireless communication devices.

Auditor General Recommendation: The Department should continue efforts to discourage personal use of State wireless communication devices, ensure Department policies and procedures are followed, and establish and implement procedures to require independent or supervisory reviews of samples of cell phone invoices.

OAG Response as of September 28, 2007:

The Department will continue to examine refinements to its procedures regarding the review and approval of wireless communication invoices. The Department has made improvement in this area, but will continue its efforts to ensure compliance with timely review and establish a procedure which includes periodic review by supervisors.

Status as of March 2008: Finance and Accounting reports that an Assignment of State Owned Wireless Form was developed and disseminated to the current wireless device holders for completion. Beginning 11/19/07, each new assignment of a wireless device required the completion of a form. In addition, the Cell Phone Certification Form was revised to address the requirements for reporting and reimbursing for personal usage. The forms include a space for supervisor review and approval of the invoice. Supervisor approval of cell phone

invoices will be required on a random basis according to Finance and Accounting.

Finance and Accounting advises they are considering options to automate the review of cell phone use which should streamline the process and provide for better management reporting.

Conditionally implemented - Auditor recommends segments of this finding remain open for monitoring of testing of new policy and evaluation of automation of cell phone use review.

Auditor General Audit Finding No. 10:

The Department did not obtain appropriate approvals for changes to the Purchasing Card Agency Plan and did not maintain a current Plan. Furthermore, some single transaction limits appeared to be higher than necessary.

In Summary: The Departments P-Card single transaction spending limits exceeded those needs as determined by the Auditor General.

Auditor General Recommendation: To reduce the risk of purchasing card misuse and to strengthen key Purchasing Card Program controls, the Department should review cardholder transactions and limits for reasonableness and consider reducing transaction limits, as appropriate. Additionally, the Department should maintain a current, approved Plan and obtain DFS approval for changes to the Plan prior to implementing such changes.

OAG Response as of September 28, 2007:

The Department has revised its Purchasing Card plan and procedures and received approval from the Department of Financial

Services for the revisions. In addition, Finance and Accounting will make periodic reviews of cardholder activity to ensure single transaction and credit limits are properly supported.

Status as of March 2008: The department's revised P-Card plan was approved by the Department of Financial Services. However; spending limits were not reduced for most card holders. According to Finance and Accounting management, the Cardholder Administrator reviews activity for atypical vendors, large transaction amounts, and to ensure cardholder credit limits are in line with activity.

Partially Implemented. Auditor recommends this finding remain open to further evaluate spending limits.

Auditor General Audit Finding No. 11: The Department had not obtained legislative clarification regarding the statutory maximum fund balance allowable in the Legal Affairs Revolving Trust Fund.

In Summary: The Legal Affairs Revolving Trust Fund statutory language was unclear regarding maximum funding balances.

Auditor General Recommendation: The Department should pursue legislative clarification regarding the statutory maximum fund balance allowable in the Legal Affairs Revolving Trust Fund.

OAG Response as of September 28, 2007: The Department agrees that the legislation needs clarification and will seek legislation to clarify this point in the 2008 legislative session. Each fiscal year at the close of the financial statement process an analysis is done of the Legal Affairs Revolving Trust

Fund balance to ensure that the balance does not exceed the statutory maximum.

Status as of March 2008: Administrative Services management reports that the OAG drafted an amendment to clarify that the funds in the Legal Affairs Revolving trust fund are not limited to the antitrust and racketeering sections but include additional economic crimes. The amendment language was provided to Legislative Affairs and according to Administrative Services staff will be submitted as an amendment if a suitable bill can be identified. In conclusion, although suggestions were made for change, the Statute was not amended.

Partially Implemented - Auditor recommends this finding remain open as the statute was not changed.

Auditor General Audit Finding No. 12 : Improvements in internal controls related to revolving fund subaccounts were needed.

In Summary: Bank Reconciliations were not performed timely, incompatible duties were sometimes performed, and in some cases interest earnings were not deposited to source funds within thirty days.

Auditor General Recommendation: The Department should take steps to ensure that revolving fund subaccount transaction records are timely reconciled to bank statements and that interest earnings are deposited to the State Treasury within thirty days of receipt. Additionally, the Department should develop and implement written policies and procedures for all revolving funds that will incorporate the internal controls necessary to ensure proper separation of duties and independent verification of bank account activities.

OAG Response as of September 28, 2007:

Finance and Accounting experienced a number of vacancies during this audit period which resulted in the assignment of some incompatible duties and negatively impacted the timeliness of some completed tasks. The Department will work to establish written procedures for the revolving funds, including a separation of duties and independent verification of bank account activities.

Status as of March 2008: Checking account custodial duties have been segregated. The reconciliation of the revolving fund activity has been assigned to

a staff member that is not identified as the Custodian. Finance and Accounting staff acknowledge although reconciliations and return of interest earned are to be completed on a monthly basis; interest has not been distributed timely in all cases.

Finance and Accounting report that written procedures will be developed for the maintenance and reconciliation of the department's revolving funds.

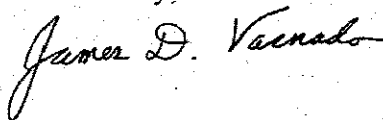
Partially Implemented - Auditor recommends this finding remain open to evaluate allocation of interest and to review the change in procedures.

Inspector General Statement

This report has been prepared to inform the Attorney General and the Joint Legislative Audit Committee of the six-month status of corrective actions related to the findings of the *Auditor General's Operational Audit 2007-021 of the Department of Legal Affairs Selected Administrative Functions and Follow-up on Selected Prior Audit Findings* released October 3, 2007, as mandated by Section 20.055, Florida Statutes.

The Office of Inspector General would like to thank Finance and Accounting staff, the Director of Administration, Director of Information Technology, Economic Crimes staff, the Human Resources Administrator, and Antitrust staff for their cooperation and assistance in this review.

Sincerely,



James D. Varnado
Inspector General