



REPRESENTING
ALEX SINK
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

July 9, 2009

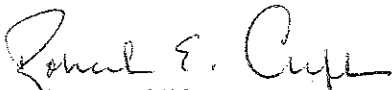
The Honorable Alex Sink
Chief Financial Officer
The Capitol, PL-11
Tallahassee, Florida 32399-0301

Dear CFO Sink:

Pursuant to Section 20.055 (5)(h), Florida Statutes, the enclosed response provides a six-month follow-up on the status of corrective actions taken by the Department regarding the findings and recommendations included in the Auditor General's Report No. 2009-091, Operational Audit of the Department of Financial Services, Bureau of Unclaimed Property, for the Period March 2006 through February 2008.

If you have any questions or would like to discuss the matter further, please contact me at (850) 413-4960.

Sincerely,


Robert E. Clift

REC:sc

Enclosure

cc: Nancy C. Tucker, CPA, Audit Manager, Office of the Auditor General
✓Kathy DuBose, Staff Director, Joint Legislative Auditing Committee

Florida Department of Financial Services
Six-Month Audit Response
Operational Audit
Bureau of Unclaimed Property
For the Period March 2006 through February 2008

Finding No. 1: Distribution of UPMIS Compact Discs

Recommendation: The Department should consider the risks posed by the production and distribution of UPMIS CDs and evaluate whether these activities should be continued. If the Department determines that the benefits of distributing UPMIS CDs outweighs the risks, the Bureau should, at a minimum:

- Enhance controls to ensure that UPMIS CDs are distributed only to properly licensed and registered locators;
- Establish and implement written policies and procedures over the production of CDs, the distribution of CDs to locators, and the destruction of undistributed CDs. These policies and procedures should address:
 - The assignment of unique control numbers to UPMIS CDs for the purpose of logging and tracking the status and disposition of each CD produced. Logs should be independently reconciled to applicable production, distribution, and destruction records;
 - Documentation required to evidence the destruction of undistributed CDs.

Response: The Department concurs. In December 2008, the Bureau of Unclaimed Property (BUP) established and implemented written procedures for handling Public Records Requests, including those produced onto Compact Discs (CDs). The procedure for CDs addresses the production, which now includes the assignment of unique control numbers and file encryption, the distribution to properly licensed and registered locators, and the documented destruction of any undistributed CDs. These written procedures also include the establishment of the following control logs:

1. Public Records Request Log for Documents – to record each request for public records (documents).
2. Public Records Request CD Log – to record each request for a CD.
3. CD Control Log – to record the creation, distribution and destruction of CDs.

Periodically, these logs will be independently reconciled by a staff person other than those involved in the public records process.

Six-Month Status: Previously completed (see January 2009 Department Response.) Since January 2009, the Bureau of Unclaimed Property has conducted four independent reconciliations of the public record logs, and there have been no unresolved discrepancies.

Finding No. 2: Monitoring Locator Compliance

Recommendation: The Department should take action to seek refunds from locators for any improperly paid fees for the claims cited above and remit such refunds to the applicable owners. Additionally, to ensure violations of the 45-Day Law are consistently detected by staff, the Department should establish and implement written policies and procedures to monitor locator compliance with the 45-Day Law. To enforce compliance with the 45-Day Law, the Department should also consider imposing fines or other penalties on locators who have violated Voluntary Settlement Agreement terms by continuing to violate the 45-Day Law.

Response: The Department concurs. The training manual has been modified to include instructions for addressing claims containing 45-day violations. In July 2008, initial enhancements were made to UPMIS, so that claimed accounts are flagged in such a way that staff can more readily detect a violation of the 45-day provision. Further UPMIS enhancements are planned, so that accounts cannot be approved when there is a violation. BUP anticipates that this enhancement will be made no later than April 30, 2009. The Department will take action to seek refunds from locators on applicable claims.

Six-Month Status: In Progress. Bureau of Unclaimed Property and Division of Information Systems have implemented additional UPMIS enhancements, eliminating the ability to process a claim that violates the 45-day provision. Efforts to collect refunds from claimant's representatives are ongoing.

Finding No. 3: Waiving Penalties for Late Reports

Recommendation: The Bureau should revise its *Waiver Policy* to provide for periodic and independently performed reconciliations between waived penalties in UPMIS and approved *Waiver Forms*. Additionally, the Bureau should ensure the separation of incompatible duties. Also, if the Department has determined that automatically waiving penalties for first-time filers is in the best interest of the State, the Department should take the necessary action to amend the Department rule accordingly.

Response: The Department concurs. By January 31, 2009, BUP will update appropriate penalty-related procedures, and implement procedures for the periodic and independent reconciliation between completed "Penalty Waiver Approval/Denial" forms and the corresponding waived penalties maintained in UPMIS by a staff person not otherwise involved in the penalty process.

We agree that separation of duties is paramount to strong internal controls and we will assure that it takes place. However, BUP would like to clarify that UPMIS, not any individual staff member, systematically assesses a holder penalty, based on the input of the holder report by the Processing Section. The Compliance Section employee, who is responsible for the penalty process, reviews and mails the letters to the holder, addresses and mails the "Penalty Waiver Approval/Denial" form and, if approved by the Compliance supervisor, waives the penalty record in UPMIS. All penalty waivers are approved by the Compliance supervisor. A sampling

of the penalty letters is compared with UPMIS by the Compliance Supervisor monthly to ensure the letters are being mailed in accordance with the established procedures. The Department believes that with the implementation of the independent reconciliation process, and the review and authorization of the "Penalty Waiver Approval/Denial" form by the supervisor, there are controls in place to ensure integrity of the penalty process.

BUP has discontinued the process of automatically waiving penalties of very small dollar amounts, as well as those assessed first-time filers. Penalties will be assessed consistent with Department rule, until such time that the rule can be amended.

Six-Month Status: Completed. Prior to January 31, 2009, Bureau of Unclaimed Property implemented and/or updated existing procedures related to assessment and waiver of holder penalties.

Finding No. 4: Delivery of Securities

Recommendation: The Bureau should take steps to ensure that all securities are consistently and expeditiously transferred to the Department's established investment service provider. The recommended steps should include the elimination of any ambiguities currently included in the Bureau's instructions provided to holders that act to impede the accomplishment of these transfers.

Response: The Department concurs. BUP has modified the reporting instructions provided to holders of unclaimed securities, stating that all securities eligible for electronic transfer shall be sent to the contracted custodian. These updated instructions are available to holders, effective January 2009, at the beginning of the 2008 Report Year cycle (for reports due prior to April 30, 2009, for calendar year 2008).

Six-Month Status: Previously completed. (See January 2009 Department Response.)

Finding No. 5: Investment Worksheets

Recommendation: The Bureau should immediately, and periodically thereafter, reconcile all investment worksheets to UPMIS. Additionally, if feasible, the Bureau should make changes to UPMIS to accommodate the tracking and valuation of any securities that may continue to be held by outside holders.

Response: BUP concurs with the recommendation that all investment worksheets should be periodically reconciled to UPMIS. BUP has initiated a reconciliation of all securities held by outside holders in conjunction with the receipt of 2008 calendar year-end statements. These statements, which reflect activity occurring in the accounts through December 31, 2008, will be updated on the investment worksheets and reconciled to UPMIS by June 30, 2009. BUP also concurs with the recommendation that UPMIS be modified to accommodate the tracking and valuation of all securities. BUP had requested this enhancement to UPMIS prior to this audit. BUP anticipates the enhancement will be complete by June 30, 2009. Once this enhancement is complete, BUP intends to discontinue the use of investment worksheets.

Six-Month Status: In Progress. Bureau of Unclaimed Property staff has diligently worked to update all applicable investment spreadsheets with activity reflected on the calendar year end statements, and reconciled the spreadsheets with UPMIS. UPMIS enhancements in this area are ongoing, with a revised completion date of December 31, 2009.

Finding No. 6: Physical Security Controls

Recommendation: The Department should strengthen physical security controls in the areas noted.

Response: The Department concurs. BUP has enhanced its internal procedures designed to strengthen physical security controls.

Six-Month Status: Previously completed. (See January 2009 Department response.)