



REPRESENTING
ALEX SINK
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

September 8, 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. 2009-144, State of Florida - Compliance and Internal Controls Over Financial Reporting and Federal Award, for the fiscal year ended June 30, 2008.

This was a multi-agency audit and as such, four findings were applicable to DFS processes: 08-005 (Accounting & Auditing), 08-006 (Workers' Compensation); and 08-072 and 08-079 (State Fire Marshal).

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: Kathryn Walker, CPA, Audit Manager, Office of the Auditor General
✓Kathy DuBose, Staff Director, Joint Legislative Auditing Committee

FLORIDA DEPARTMENT OF FINANCIAL SERVICES
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JLAC
Rec'd 9/9/2009

Finding Number	FS 08-005
Opinion Unit	Various
Financial Statements Accounts Title	Cash and Cash Equivalents
SW Fund Number	Various
State Agency	Florida Department of Financial Services (FDFS)
OLO-GF-SF-FID	Various
GL Code(s)	112, 113, 222, and 223
Finding	Controls were not sufficient to reasonably ensure the accuracy and completeness of note disclosures relating to the custodial credit risk associated with deposits of cash and cash equivalents.
Criteria	<p>GASB Codification of Governmental Accounting and Financial Reporting Standards Section C20.107 requires certain disclosures regarding custodial credit risk.</p> <p>The Florida Security for Public Deposits Act (Chapter 280, Florida Statutes) describes procedures for ensuring the protection of public deposits. Section 280.05, Florida Statutes, outlines the powers and duties of FDFS relative to the Qualified Public Depository (QPD) Program. Section 280.05 (16) (c), Florida Statutes, addresses the processing of QPD and public depositor annual reports. Section 280.17, Florida Statutes, outlines several requirements that must be met by public depositors participating in the QPD Program, including, but not limited to, the submission of an annual report to FDFS regarding the status of public deposits. In accordance with the Statutes, if a public depositor does not comply with Section 280.17, Florida Statutes, for each public deposit account, the protection from loss provided by the QPD Program is not effective.</p>
Condition	In addition to administering the QPD Program, FDFS was also responsible for preparing and publishing the State's Comprehensive Annual Financial Report, including the applicable note disclosures. In doing so, FDFS used a standard form to obtain from State entities the information needed to compile amounts disclosed in Note 2 regarding deposits and the related custodial credit risk. Our audit tests disclosed that for some deposits reported as collateralized in Note 2, Public Depositor annual reports had not been received by FDFS.
Cause	We noted that the forms used to support the note disclosure did not require entities to certify compliance with Chapter 280, Florida Statutes, and confirm the submission of the annual reports.
Effect	Disclosures related to deposits in Note 2 of the financial statements may understate the custodial credit risk of State deposits. Additionally, the absence of QPD Program protection could lead to the loss of public deposits in the event of a depository failure.
Recommendation	We recommend that FDFS coordinate efforts with the State entities to ensure that financial statement disclosures regarding custodial credit risk are accurate and complete and that annual reports are filed in compliance with Chapter 280, Florida Statutes.
State Agency Response and Corrective Action Plan	Concur. We will revise the forms used to support the note disclosure for deposits to require entities to certify compliance with Chapter 280, Florida Statutes, and to confirm that they are in possession of the required Public Deposit Identification and Acknowledgement (J1-1295) and have filed the required Public Depositor Annual Report (J1-1009).
Estimated Corrective Action Date	June 30, 2009

Auditor General Report: Compliance and Internal Controls Over Financial Reporting and Federal Awards
Report No.: 2009-144
Issue Date: March 2009
Finding: Custodial Credit Risk

Six-Month Status	The Statewide Financial Statements Compliance Checklist was updated to include an additional item whereby the chief fiscal officer certifies compliance (or noncompliance with additional information) with Chapter 280, Florida Statutes. The Statewide Financial Statements guidance document was updated to provide information on public deposit requirements. Statewide Financial Statements Forms 17 and CU1 for Deposits were updated to instruct that deposits in compliance with Chapter 280 should not be included in Section C.
Agency Contact and Telephone Number	Paul Reynolds, Financial Administrator Statewide Financial Reporting Section (850) 413-5687 Robert E. Clift, Inspector General (850) 413-4960

Auditor General Report: Compliance and Internal Controls Over Financial Reporting and Federal Awards
 Report No.: 2009-144
 Issue Date: March 2009
 Finding: Special Disability Trust Fund

Finding Number	FS 08-006
Opinion Unit	Non-Major Governmental Funds
SW Fund Number	209999 and 900000
State Agency	Florida Department of Financial Services (FDFS)
OLO-GF-SF-FID	43-20-2-798001 and 43-90-9-400001
GL Codes	315, 498, and 711
Finding	The FDFS did not have effective IT general controls in place to ensure the integrity and reliability of data relating to Special Disability Trust Fund (SDTF) claims.
Criteria	FDFS is charged with the oversight responsibility for the Special Disability Trust Fund Database (SDTFD). As such, FDFS was responsible for the implementation and operation of effective controls. Rule 60DD-2, Florida Information Resource Security Policies and Standards, Florida Administrative Code, sets forth policies for the State's information resource security program.
Condition	SDTFD information is used by FDFS to manage Special Disability Trust Fund claims and accumulate information used to report Trust Fund accounts and balances. Trust Fund expenditures for claims for the 2007-08 fiscal year totaled \$92,704,894. Our review of the IT general controls in place over SDTF claims during the 2007-08 fiscal year disclosed weaknesses related to the separation of IT functions, physical access, systems development and maintenance, and access control. Specific details of these matters are not disclosed in this report to avoid the possibility of compromising SDTFD claims payment information. However, the appropriate FDFS personnel have been notified of these issues.
Cause	In some instances, SDTFD preventative and detective control procedures were not appropriately designed and in operation.
Effect	Without adequate preventative and detective controls in place, the risk is increased that SDTF claim expenditures and associated liabilities may be subject to misstatement.
Recommendation	We recommend FDFS strengthen the applicable IT general controls.
State Agency Response and Corrective Action Plan	The Divisions of Workers' Compensation and Information Systems of the Department of Financial Services concur in the existence and seriousness of the conditions identified by the Auditor General's staff in their review of the Special Disability Trust Fund Database. The divisions were aware of many of the conditions noted and were already proceeding with changes to independently address many of them. The respective divisions have begun a specific collaborative effort to address each of the conditions. Those conditions that are apt to be resolved by immediate action have already been addressed. Conditions that require the development of solutions have been identified, and progress has begun in the implementation of corrective measures. Specific details of the Department's corrective plan are not divulged here to protect the database from possible compromise. In each condition identified by the Auditor General's staff, the IT general controls are being strengthened, consistent with applicable law and standards.
Estimated Corrective Action Date	September 1, 2009

<p>Six-Month Status</p>	<p>The Divisions of Workers' Compensation and Information Systems of the Department of Financial Services are nearing completion of the Corrective Action Plan formulated to address every condition indentified in finding FS 08-006 concerning to the Special Disability Trust Fund Database (Report Number 2009-144). Based upon the documents provided by the Auditor General's Office, eight conditions were identified which, collectively, accounted for seventeen sub-parts requiring a distinct corrective action. Corrective action on approximately half of these was successfully implemented on or before March 26, 2009. The remaining conditions could only be resolved through development of changes to the subject application(s) and database and the relocation of the data to newer server equipment.</p> <p>These remaining issues will be resolved upon the relocation of the SDTF database to newer server equipment and deployment of the application enhancements. The deployment and relocation is presently scheduled for September 9, 2009. The development and deployment of application enhancements and relocation of the database is occurring within the adopted change management structure of the Department and comports with or exceeds applicable law or standards.</p>
<p>Agency Contact and Telephone Number</p>	<p>Eric Lloyd, Manager, Special Disability Trust Fund (850) 413-1689</p> <p>Sharon Jackson, Info Tech Business Consultant Manager-SES Division of Information Systems (850) 413-1886</p> <p>Robert E. Clift, Inspector General (850) 413-4960</p>

Auditor General Report: Compliance and Internal Controls Over Financial Reporting and Federal Awards
 Report No.: 2009-144
 Issue Date: March 2009
 Finding: Allowable Costs/Cost Principles

Finding Number	FA 08-072
CFDA Number	97.004, 97.067
Program Title	Homeland Security Cluster
Compliance Requirement	Allowable Costs/Cost Principles
State Agency	Florida Department of Financial Services (FDFS)
Federal Grant/Contract Number and Grant Year	2006-GE-T6-0023
Finding Type	Noncompliance and Significant Deficiency Questioned Costs - \$141,737.28
Finding	FDFS made payments to subgrantees for expenditures incurred prior to the execution of a contract.
Criteria	USDHS OGT OGO Financial Management Guide, <i>Procurement</i>
Condition	During the 2007-08 fiscal year, the FDFS Office of the State Fire Marshal made payments totaling \$2,816,447 to subgrantees. We tested eight payments to subgrantees totaling \$690,321.09. Our audit disclosed that for one subgrantee, FDFS reimbursed the subgrantee for expenditures totaling \$141,737.28 although the expenditures were incurred outside the contract period. These expenditures were incurred from three to ten months prior to the start of the contract period.
Cause	In response to our inquiry, FDFS staff indicated that subrecipients of the State Fire Marshal were allowed to pursue projects under the auspices of the FDFS contract with the Florida Division of Emergency Management even if a contract with the subrecipient had not been executed. According to FDFS staff, this procedure was discontinued.
Effect	Payments made prior to the contract period may be subject to disallowance by USDHS.
Recommendation	We recommend FDFS strengthen the applicable IT general controls.
State Agency Response and Corrective Action Plan	All future contracts with Homeland Security Cluster grant subrecipients will ensure that the effective date of the agreement coincides with the effective date of the corresponding agreement between DEM and DFS. In addition, the Department's Division of Administration has revised procedures to require requests for payments to grant recipients be submitted to the Reconciliation Unit in the Bureau of Financial and Support Services, instead of to the Disbursements Unit as is the case for all other requests for payment. The Reconciliation Unit then verifies that the payment is within the contract period. After verification, it is then sent to our Disbursements Unit for processing.
Estimated Corrective Action Date	Completed
Six-Month Status	All subgrant agreements now state that the effective date coincides with the effective dates of the agreement between the Division of Emergency Management and the Department of Financial Services. Additionally, Requests for Reimbursements are submitted to the Reconciliation Unit within the Division of Administration to ensure that payments are within the contract period.
Agency Contact and Telephone Number	Mike Bannister Division of State Fire Marshal (850) 413-3611 Robert E. Clift, Inspector General (850) 413-4960

Auditor General Report: Compliance and Internal Controls Over Financial Reporting and Federal Awards
 Report No.: 2009-144
 Issue Date: March 2009
 Finding: Subrecipient Monitoring

Finding Number	FA 08-079
CFDA Number	97.004, 97.067
Program Title	Homeland Security Cluster
Compliance Requirement	Subrecipient Monitoring
State Agency	Florida Department of Financial Services (FDFS)
Federal Grant/Contract Number and Grant Year	2006-GE-T6-0023
Finding Type	Significant Deficiency
Finding	FDFS did not have written procedures for monitoring subgrantees and reviewing subgrantee audit reports. Additionally, during the 2007-08 fiscal year, FDFS did not perform on-site subgrantee monitoring.
Criteria	USDHS OGT OGO Financial Management Guide, <i>Monitoring Project Performance</i> ; OMB Circular A-133, § 400(d), <i>Pass-through entity responsibilities</i>
Condition	During the 2007-08 fiscal year, FDFS expended HSC funds totaling \$3,608,203. Expenditures for subgrants during the 2007-08 fiscal year totaled \$2,816,447 (78 percent of total expenditures). Our review disclosed that FDFS had not established written procedures for conducting site visits, reviewing subgrantee quarterly and close-out reports required by its subgrantee agreements, or reviewing subgrantee audit reports.
Cause	In response to our inquiry, FDFS staff indicated that subrecipients of the State Fire Marshal were allowed to pursue projects under the auspices of the FDFS contract with the Florida Division of Emergency Management even if a contract with the subrecipient had not been executed. According to FDFS staff, this procedure was discontinued. Additionally, we noted that FDFS did not perform on-site monitoring of subgrantees during the 2007-08 fiscal year. In June 2008, FDFS contracted with a vendor to perform site visits and provide monitoring evaluations of subgrantees. However, these evaluations were not completed until September 2008.
Effect	FDFS had limited assurance of subgrantee compliance with applicable Program requirements and achievement of performance goals.
Recommendation	We recommend that FDFS ensure that monitoring is performed for subgrantees to ensure that Federal funds are being used as intended. We also recommend that FDFS establish written procedures regarding the review of subgrantee quarterly and closeout reports required by subgrantee agreement, as well as, subgrantee audit reports.
State Agency Response and Corrective Action Plan	FDFS is improving and documenting its procedures to improve the efficiency and accountability of its processes. A new State Homeland Security Coordinator has been hired with extensive experience in managing Federal grants. The various modes of monitoring will continue to expand. In addition, FDFS is in the process of establishing and updating procedures to assure that subrecipients provide required audits and reports in a timely manner.
Estimated Corrective Action Date	June 2009

Auditor General Report: Compliance and Internal Controls Over Financial Reporting and Federal Awards
Report No.: 2009-144
Issue Date: March 2009
Finding: Subrecipient Monitoring

Six-Month Status	FDFS is continuing to work with both its subrecipients and FDEM to enhance the guidance found in new agreements and improve the documentation and accountability of its processes. Operational Readiness Reviews, which include active programmatic monitoring, have been completed on all Urban Search and Rescue Teams and Light Technical Rescue Teams, and are currently underway for the Hazardous Materials Response Teams. Additionally, a new monitoring procedure, which now will contain both annual desk monitoring and semi-annual operational/programmatic monitoring has been drafted and is awaiting organizational approval.
Agency Contact and Telephone Number	Lorin Mock, Domestic Security Coordinator Division of State Fire Marshal (352) 732-1433 Robert E. Clift, Inspector General (850) 413-4960