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Governor Charlie Crist

Secretary Linda H. South

MEMORANDUM

DATE: March 31, 2009

TO: Linda H. South, Secretary 

FROM: Steve Rumph, Inspector General

SUBJECT: Six-Month Follow-up Response to Auditor General Report No. 2009-014

Pursuant to Section 20.055(5)(g), Florida Statutes, the following is our explanation of the six-month status of findings and recommendations included in the Auditor General's Report No. 2009-014, *State of Florida, Local Government Financial Reporting System*. Our response addresses the findings and recommendations in the same order as they appear in the report.

Six-Month Status Report

Finding No. 8: Review of Actuarial Reports and Impact Statements

Department of Management Services, Division of Retirement (DMS), did not always acknowledge the receipt of the local governments' actuarial reports or actuarial impact statements pertaining to public employee retirement systems and plans, contrary to Section 112.63(4), Florida Statutes. Furthermore, DMS did not prioritize its backlog of actuarial reports and impact statements pending review to ensure that the reviews were performed in a timely manner.

Recommendation:

DMS should ensure that all local governments are notified in a timely manner that DMS has received their actuarial reports and impact statements. Additionally, DMS should take appropriate action to ensure that reviews are performed in a timely manner, and that the written procedures established for the review of actuarial reports and impact statements are followed, including prioritizing its backlog based on the triennial review schedule provided for in law.

Response:

Concur. Division procedures require the Division to acknowledge receipt of actuarial reports and impact statements. Staff enter into a logbook the date of receipt of each actuarial

valuation and/or impact statement and the date the acknowledgement letter was issued. A copy of the acknowledgement letter is placed in the monthly correspondence file. To ensure staff are complying with these procedures, management has instituted the practice of verifying that the acknowledgement letter was issued. Each month, management will review the hard copy file of a sample of approximately 20% of the plans that submitted reports during the past month to verify that the acknowledgement letter was issued.

In response to recommendations by the Department's Office of Inspector General the Division has established a comprehensive action plan to address issues related to prioritizing the review of actuarial reports and adherence to a triennial review schedule. Accordingly, the Division has established a risk-based schedule for accomplishing the triennial review of all local government pension plans. The schedule specifies the order in which plans are to be reviewed with the most overdue plans given the highest priority for review. In addition, the Division has implemented a policy whereby it no longer reviews actuarial valuations older than three years. The Division expects to complete the revision of its written policies and procedures for conducting actuarial reviews by January 1, 2009.

The Division has also obtained additional resources to assist in its review efforts. A budget amendment approved on September 4, 2008 provides additional funding in the current fiscal year for external actuarial services to help reduce the work backlog. The 2008 Legislature authorized a second actuary position to help address the backlog and assist in maintaining a triennial review schedule.

Current Status of Recommendation

In accordance with statutory requirements, the division's operating procedures require staff to acknowledge receipt of actuarial reports and impact statements. To ensure compliance with this requirement, management reviews division files monthly to verify that staff did in fact issue an acknowledgement letter for each report received in the prior month.

In July 2008, the division put into effect a schedule for accomplishing the triennial review of all local government pension plans. Priority for review is based on time elapsed since the last plan examination. As reported in our original response, the 2008 Legislature authorized a second actuary position and a following budget amendment provided additional funding for external actuarial services. We subsequently filled the second actuarial position and contracted for actuarial services with two vendors. With these resources, we anticipate a significant reduction in our work backlog by the end of the current fiscal year.

To accomplish the review schedule, the actuaries were directed to review plans in the order of assigned priority. We also developed a standard work program the actuaries must follow to ensure consistency in plan reviews. The completed work program documents that the reviewing actuary has performed required review steps and procedures.

OIG Position:

We agree that the actions taken by management should adequately implement the Auditor General's recommendation concerning acknowledgement letters.

The division has established a schedule for accomplishing the triennial review of local government pension plans. The division also established a checklist the reviewing actuary is required to complete to document performance of certain review steps and incorporated these changes into its written policies and procedures for conducting actuarial reviews.

In addition to filling its second actuary position, the division contracted for additional actuarial services with two private vendors. With these resources, the division expects to have significantly reduced its work backlog by the end of Fiscal Year 2008-09. We will continue to monitor implementation of the Auditor General's recommendations regarding review timeliness.

Finding No. 9: Actuarial Report Information Requests

DMS did not include the required response time, or notification of the consequences for failure to provide requested information, in its correspondence with pension plan administrators. Also, DMS did not maintain a system for tracking and timely following up on requests for additional information relating to its review of public employee retirement systems and plans.

Recommendation:

DMS should include the required response time and indicate the consequences for failure to provide the requested information, as provided for in law and rule, in requests to pension plan administrators for additional information. Additionally, DMS should establish a tracking system for its correspondence to ensure timely monitoring and follow-up, and, if necessary, enforce the consequences for failure to provide the required information in a timely manner.

Response:

Concur. The Division is in the process of revising its notification letters. The revised letters will advise plan administrators of the 60-day response requirement and of the consequences for failure to provide requested information. The Division expects to begin issuing the revised letters by October 1, 2008. The Division is in the process of revising procedures for tracking responses from plan administrators. The revised procedures will permit management to readily identify and timely follow-up with plans that have not responded within the 60-day response period. The Division anticipates that the revised tracking procedures will be implemented by January 1, 2009.

Current Status of Recommendation

Subsequent to our initial response, the department's Office of the General Counsel advised us the division might not have sufficient statutory authority to establish a required response time in its correspondence with pension plan administrators. The division is working with the General Counsel's office to determine if a statutory revision is required to address this issue. The division therefore determined to apply the statutory language (reasonable period of time) in requests to pension plan administrators for additional information. As of September 25, 2008, letters requesting additional information contain the following statement:

"NOTE: Section 112.63(4), F.S., provides that if a response to the foregoing request is not received within a reasonable period of time, the Department of Management Services may notify the Departments of Revenue and Financial Services to withhold any funds payable to the plan sponsor (not pledged for the satisfaction of bond debt service), until the additional material information or corrections have been received by this office."

In September 2008, the division implemented a correspondence logbook to monitor the status of and follow-up on requests for information made by the division's internal actuaries. The contracts with external actuaries require the vendor to maintain records of all correspondence with plan administrators. However, in conjunction with the redesign of the division's local retirement system database we will explore options for replacing these manual systems with a web-based tracking system. We will enforce consequences for failure to provide information timely should the need arise.

OIG Position:

The division partially implemented the Auditor General's recommendation concerning letters of request for additional information. We will continue to monitor implementation of this recommendation. We will also continue to monitor the division's efforts to implement a comprehensive correspondence tracking system as well as the division's use of its enforcement authority.

If further information is needed, please contact John Davis, Auditor Director, or myself at 488-5285.

JSR/sll

Ms. Linda H. South, Secretary

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cc: Terry L. Shoffstall, Director
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