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Governor Charlie Crist

Secretary Linda H. South

## MEMORANDUM

**DATE:** August 28, 2009  
**TO:** Linda H. South, Secretary  
**FROM:** Steve Rumph, Inspector General

**SUBJECT:** Six-Month Status Report to Auditor General Report No. 2009-144

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. 2009-144, State of Florida Compliance and Internal Controls Over Financial Reporting and Federal Awards, dated March 5, 2009. Our response addresses the findings and recommendations in the same order as they appear in the report.

### Six-Month Status Report

#### Finding No. 08-004:

As previously reported, FDMS did not properly classify net assets in accordance with generally accepted accounting principles (GAAP).

#### Recommendation:

We again recommend that FDMS ensure that the calculation of invested in capital assets, net of related debt, includes the impact of significant unspent related debt proceeds.

#### Original Response:

We agree with the Auditor General's Office that the Net Assets Invested in Capital Assets, Net of Related Debt (536XX general ledger code) was misstated. However, the classification error does not misstate the total fund equity. Policies and procedures have been developed to ensure that the funds are correctly reported in next years financial statements.

#### Current Status of Recommendation

Policies and procedures reflect the correct calculation for classifying net assets. The calculation is performed by the Professional Accountant Supervisor and reviewed by the Chief of Financial Management Services.

**OIG Position**

***We recommend this recommendation remain open until the 2008-2009 financial statements are completed and reviewed by the Auditor General.***

**Finding No. 08-007:**

As previously reported, the investment return assumption (discount rate) of 7.75 percent (long-term rate) used by FDMS in determining the actuarial accrued liability for the Health Insurance Subsidy (HIS) plan, was not commensurate with the nature and mix of current and expected plan investments. Plan investments were invested to yield short-term rates. The use of a short-term, rather than long-term, rate may have resulted in the calculation of a significantly larger estimated actuarial accrued liability.

**Recommendation:**

The Department has completed the July 1, 2008, HIS valuation, the results of which will be reported as required supplementary information in the FY 2008-09 Comprehensive Annual Financial Report. However, the Department again elected to use an investment return assumption (discount rate) of 7.75 percent. We again recommend that FDMS utilize a discount rate consistent with the nature and mix of current and expected plan investments.

**Original Response:**

As a publicly funded pension plan, the Legislature must decide about the funding of the Retiree Health Insurance Subsidy (HIS) Program. The Department of Management Services does not make these decisions.

Principals of the Florida Retirement System (FRS) Assumption Conference were contacted following the Auditor General's finding on this same subject last year. The FRS Assumption Conference was requested to meet concerning setting pension assumptions for the HIS Program. Also, follow-up correspondence was sent to the principals requesting guidance on the HIS funding assumptions. At this time, the Department has not received a response to our request.

Based on the 2008 HIS funding model, the HIS Trust Fund continues to project a reserve of 10 or more months for the next five fiscal years. This model uses the current level of funding, the average of the actual return over the previous five years, and membership growth trends over the last four years. On average, the monthly contributions received by the HIS Trust Fund continue to exceed the monthly HIS benefit payments. Valuations are performed biennially with the most recent valuation being as of June 30, 2008. The FRS Pension Plan assumptions were used since it is the only statewide pension program and the HIS recipients are FRS retirees and surviving beneficiaries.

**Current Status of Recommendation**

The Department did not receive a response to requests for an HIS Assumptions Conference, as noted in the original response. An FRS Actuarial Assumptions Conference was held on July 27, 2009 to review the preliminary results of the 2003 – 2008 FRS Experience Study. During that Conference a request was made to the principals to hold an HIS Assumptions Conference in conjunction with the FRS Assumptions Conference scheduled for September 25, 2009. Verbal agreement was given by the principals.

**OIG Position**

***We recommend this recommendation remain open until the Assumptions Conference is held.***

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

SR/crm

cc: Kathy DuBose, Director  
Joint Legislative Auditing Committee

William O. Monroe, Auditor General

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