



FLORIDA DEPARTMENT of

management
SERVICES

We serve those who serve Florida

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Rick Scott, Governor

Erin Rock, Secretary

September 29, 2017

Erin Rock, Secretary
Department of Management Services
4050 Esplanade Way, Suite 285
Tallahassee, FL 32399-0905

Eric W. Miller, Chief Inspector General
Executive Office of the Governor
1902 The Capitol
Tallahassee, FL 32399-0001

Secretary Rock and Chief Inspector General Miller:

In accordance with section 20.055(8)(a), Florida Statutes, I am pleased to present the Office of Inspector General's Annual Report for Fiscal Year 2016-2017. The report summarizes the accomplishments of staff within the Investigations and Internal Audit Sections during Fiscal Year 2016-2017.

We continue to remain committed to enhancing and promoting accountability, integrity and efficiency and look forward to continuing to work with you and Department of Management Services staff in Fiscal Year 2017-2018.

Respectfully submitted,

Dawn E. Case
Inspector General



FLORIDA DEPARTMENT of

management
SERVICES

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Office of Inspector General

Annual Report
Fiscal Year 2016-2017

Retirement
Human Resource Management
People First
State Group Insurance

State Purchasing
Real Estate Development
Telecommunications
Specialized Services

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INTRODUCTION

Section 20.055, Florida Statutes (F.S.), establishes an Office of Inspector General within each state agency to provide a central point for coordination of and responsibility for activities that promote accountability, integrity, and efficiency in government. Section 20.055, F.S., also outlines the specific duties of each Inspector General, including the duties and responsibilities for carrying out auditing and investigative activities. Additionally, section 20.055, F.S., specifies that each Inspector General shall prepare an annual report no later than September 30 of each year, which summarizes the activities of the office during the prior fiscal year, and includes:

- A description of activities relating to the development, assessment, and validation of performance measures;
- A description of significant abuses and deficiencies relating to the administration of programs and operations of the agency disclosed by investigations, audits, reviews, or other activities during the reporting period;
- A description of the recommendations for corrective action made by the Inspector General during the reporting period with respect to significant problems, abuses, or deficiencies identified;
- The identification of each significant recommendation described in previous annual reports on which corrective action has not been completed; and,
- A summary of each audit and investigation completed during the reporting period.

This annual report is presented to the Executive Office of the Governor's Chief Inspector General and the Secretary of the Department of Management Services to comply with statutory requirements and to provide department staff and interested parties with information on the Office of Inspector General's progress in accomplishing its mission.

MISSION STATEMENT

The Office of Inspector General's mission is to promote effectiveness, efficiency and quality within the Department of Management Services. The Office of Inspector General provides independent reviews, assessments and investigations of department programs, activities and functions to assist the Department of Management Services in accomplishing its overall mission.

DUTIES AND RESPONSIBILITIES

In accordance with section 20.055(2), F.S., the Inspector General's duties and responsibilities include:

- Advising in the development of performance measures, standards, and procedures for the evaluation of state agency programs;
- Assessing the reliability and validity of the information provided by the state agency on performance measures and standards, and making recommendations for improvement, if necessary, before submission of such information pursuant to section 216.1827, F.S.;
- Reviewing the actions taken by the state agency to improve program performance and meet program standards and make recommendations for improvement, if necessary;
- Providing direction for, supervising, and coordinating audits, investigations, and management reviews relating to the programs and operations of the state agency, except that when the Inspector General does not possess the qualifications specified in subsection (4), the director of auditing shall conduct such audits;
- Conducting, supervising, or coordinating other activities carried out or financed by that state agency for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations;
- Keeping the agency head or, for state agencies under the jurisdiction of the Governor, the Chief Inspector General informed concerning fraud, abuses, and deficiencies relating to programs and operations administered or financed by the state agency, recommending corrective action concerning fraud, abuses, and deficiencies, and reporting on the progress made in implementing corrective action;
- Ensuring effective coordination and cooperation between the Auditor General, federal auditors, and other governmental bodies with a view toward avoiding duplication;
- Reviewing, as appropriate, rules relating to the programs and operations of such state agency and making recommendations concerning their impact;
- Ensuring that an appropriate balance is maintained between audit, investigative, and other accountability services; and,
- Complying with the *General Principles and Standards for Offices of Inspector General* as published and revised by the Association of Inspectors General.

INDEPENDENCE

In accordance with section 20.055(3), F.S., the Inspector General shall be under the general supervision of the agency head for administrative purposes, shall report to the

Chief Inspector General, and may hire and remove staff within the Office of Inspector General in consultation with the Chief Inspector General, but independently of the agency. The organizational independence of the Inspector General helps to ensure that audits, investigations, and other activities are performed independently.

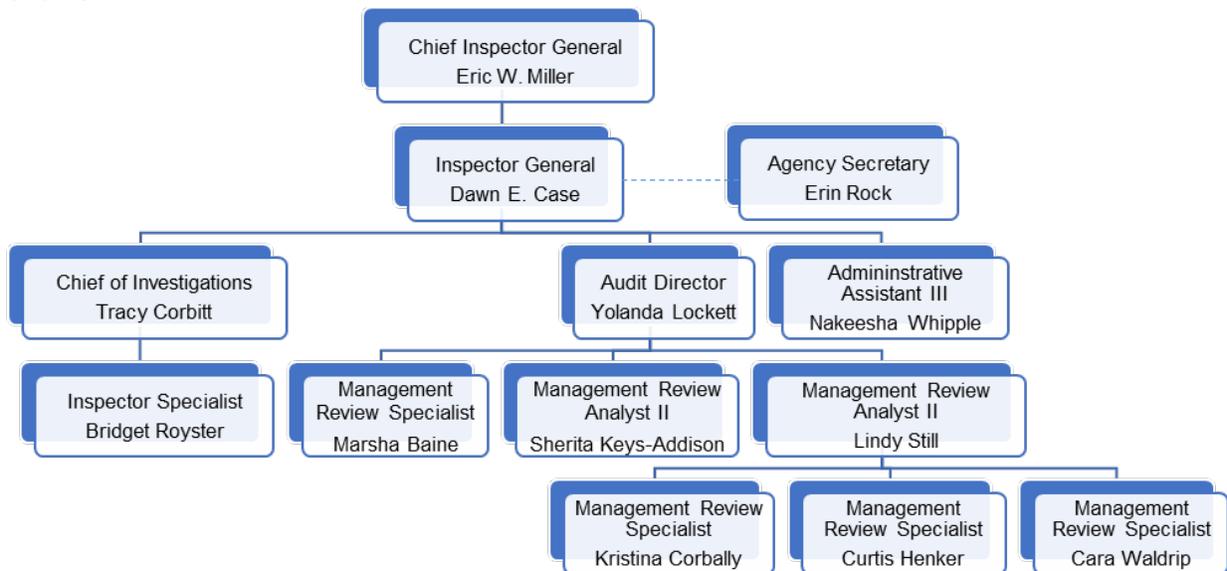
PROFESSIONAL STANDARDS AND CODE OF ETHICS

Pursuant to section 20.055(2)(j), F.S., the Office of Inspector General complies with the *General Principles and Standards for Offices of Inspector General* as published and revised by the Association of Inspectors General. Staff abide by the Florida Code of Ethics for Public Officers and Employees as codified in sections 112.311-112.326, F.S., the Executive Office of the Governor’s Code of Ethics, and the Department of Management Services Administrative Policy HR 07-105 Code of Ethics. Internal audits are conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* as published by the Institute of Internal Auditors, Inc., or, where appropriate, in accordance with generally accepted governmental auditing standards and the *Code of Ethics* published by the Institute of Internal Auditors, Inc.

OFFICE OF INSPECTOR GENERAL ORGANIZATION AND STAFFING

Office Organizational Chart

The Office of Inspector General consists of 11 staff positions. In addition to the Inspector General and Administrative Assistant III, staff positions fall within two sections: Investigations and Internal Audit. The Office of Inspector General’s organizational structure follows:



As of June 30, 2017

Staff Professional Certifications

Members of the Office of Inspector General staff hold the following professional certifications:

- *Certified Inspector General (1)*
- *Certified Inspector General Investigator (3)*
- *Certified Inspector General Auditor (3)*
- *Certified Internal Auditor (1)*
- *Certified Information Systems Auditor (1)*
- *Florida Certified Contract Manager (1)*
- *Notary Public (3)*

Staff Professional Affiliations

Members of the Office of Inspector General are affiliated with the following professional organizations:

- Association of Inspectors General (National and Local)
- The Institute of Internal Auditors, Inc. (National and Local)
- Association of Government Accountants (National and Local)
- Information Systems Audit and Control Association (National and Local)
- Association of Certified Fraud Examiners
- National Association of State Auditors, Comptrollers and Treasurers

Staff Training

With regard to professional training, the Association of Inspectors General specifies that each staff person performing audits, investigations, evaluations, or reviews should receive at least 40 hours of continuing professional education every two years in areas that directly enhances the staff member's professional proficiency. Additionally, Internal Audit Section staff enhance their knowledge, skills, and other competencies through continuing professional development in accordance with the Institute of Internal Auditing standards.

Office of Inspector General staff attended various training opportunities during Fiscal Year 2016-2017 in areas that enhanced their professional proficiency. Staff attended training sessions that were offered by a number of associations, including but not limited to, the Florida Chapter of the Association of Inspectors General, the Institute of Internal Auditors, the Association of Government Accountants, the Florida Department of Financial Services, and the Florida Department of Management Services.

SUMMARY OF ACTIVITIES FOR FISCAL YEAR 2016-2017

During the fiscal year, the Office of Inspector General completed the following activities:

Investigations Section

Section 20.055, F.S., outlines the investigative duties and responsibilities for Offices of Inspectors General to include in pertinent part:

- Initiating, conducting, supervising and coordinating investigations designed to detect, deter, prevent, and eradicate fraud, waste, mismanagement, misconduct, and other abuses in state government;
- Receiving complaints and coordinating all activities of the agency as required by the Whistle-blower's Act pursuant to sections 112.3187- 112.31895, F.S.;
- Receiving and considering the complaints which do not meet the criteria for an investigation under the Whistle-blower's Act and conducting, supervising, or coordinating such inquiries, investigations, or reviews as the inspector general deems appropriate;
- Reporting expeditiously to the Department of Law Enforcement or other law enforcement agencies, as appropriate, whenever the Inspector General has reasonable grounds to believe there has been a violation of criminal law;
- Conducting investigations and other inquiries free of actual or perceived impairment to the independence of the Inspector General or the Office of Inspector General. This shall include freedom from any interference with investigations and timely access to records and other sources of information;
- Submitting findings when applicable to the subject that is a specific entity contracting with the state or an individual substantially affected, who shall be advised in writing that they may submit a written response within 20 working days after receipt of the findings, and including the response and the inspector general's rebuttal to the response, if any, with the final investigative report; and,
- Submitting in a timely fashion final reports on investigations conducted by the inspector general to the agency head, except for whistle-blower's investigations, which shall be conducted and reported pursuant to section 112.3189, F.S.

Complaints or Requests for Assistance Received in Fiscal Year 2016-2017

The Investigations Section receives complaints and requests for assistance via telephone, letter, email, or in person. Each complaint or request for assistance is reviewed to determine if provisions of sections 112.3187-112.31895, F.S., (Whistle-blower's Act) are met. During Fiscal Year 2016-2017, the Investigations Section received, reviewed

and processed 156 complaints or requests for assistance. Of the 156 complaints or requests for assistance, 6 (4%) resulted in internal investigations; 85 (55%) were referred to management for review or response to the Investigations Section;¹ 55 (35%) were resolved and handled by the Investigations Section with minimal investigative activity necessary; 2 (1%) were resolved and handled by the Office of Inspector General with some investigative activity; 6 (4%) were handled as public records requests; and, 2 (1%) were referred to the appropriate law enforcement entity.

Type of Complaint or Request Received	Quantity
Investigations	6
Management Referral	85
Contacts/Agency Assist	55
Office of Inspector General Review	2
Public Records Request	6
Law Enforcement Referral	2
Total	156

Complaints or Requests for Assistance Closed in Fiscal Year 2016-2017

During Fiscal Year 2016-2017, the Investigations Section closed 140 complaints or requests for assistance. Of the 140 complaints or requests for assistance closed, 4 (3%) were internal investigations; 82 (58%) were referred to management for review or response to the Investigations Section; 47 (34%) were resolved and handled by the Investigations Section with minimal investigative activity necessary; 1 (1%) was resolved and handled by the Office of Inspector General with some investigative activity; 5 (3%) were handled as public records requests; and, 1 (1%) was referred to the appropriate law enforcement entity.

Type of Complaint or Request Closed	Quantity
Investigations	4
Management Referral	82
Contacts/Agency Assist	47
Office of Inspector General Review	1
Public Records Request	5
Law Enforcement Referral	1
Total	140

¹ When the Investigations Section requested a response from management, each management response was reviewed to ensure that all identified issues were addressed.

Summary of Internal Investigations Closed in Fiscal Year 2016-2017

- **Case Number 2017.8**
On August 1, 2016, the Investigations Section initiated an investigation into allegations that an employee misused state time and state resources. The Investigations Section determined the allegations were supported. The employee resigned.
- **Case Number 2017.23**
On October 6, 2016, the Investigations Section initiated an investigation into an allegation that an employee utilized state resources for personal use. The Investigations Section determined the allegation was supported. The employee was subsequently terminated.
- **Case Number 2017.28**
On November 2, 2016, the Investigations Section initiated an investigation into allegations that an employee failed to perform their assigned duties and misled their supervisor regarding completion of their assigned duties. The Investigations Section determined the allegations were supported. The employee was subsequently terminated.
- **Case Number 2017.39**
On December 21, 2016, the Investigations Section initiated an investigation into an allegation that an employee engaged in inappropriate behavior toward a coworker. The Investigations Section determined the allegation was not supported.

Summary of Recommendations Related to Significant Abuses and Deficiencies Disclosed in Investigations During Fiscal Year 2016-2017

No significant abuses or significant deficiencies were identified by the Investigations Section.

Background Screenings

The Investigations Section is responsible for conducting criminal background screenings in accordance with sections 110.1127, 435.03,² and 435.04,³ F.S. Criminal background screenings are conducted on all candidates for employment or promotion within the Department of Management Services, or for a limited number of candidates filling certain contracted positions. The Investigations Section also conducts criminal background screenings for agencies affiliated with the Department of Management Services including the Florida Commission on Human Relations, the Florida Division of Administrative

² Section 435.03, F.S., outlines the conditions necessary to conduct a Level 1 criminal background screening.

³ Section 435.04, F.S., outlines the conditions necessary to conduct a Level 2 criminal background screening.

Hearings, the Florida Public Relations Commission, and the State Board of Administration. As a condition of employment, candidates for employment must pass a Level 2 criminal background screening for positions of special trust. All other candidates for employment must pass a Level 1 criminal background screening.

During Fiscal Year 2016-2017, the Investigations Section processed 853 Level 2 criminal background screenings and 26 Level 1 criminal background screenings.

Internal Audit Section

The Internal Audit Section consists of two units, the Program Audit Unit and the Retirement Compliance Audit Unit.

Program Audit Unit

Section 20.055, F.S., outlines the auditing duties and responsibilities for Offices of Inspectors General to include in pertinent part:

- Reviewing and evaluating internal controls necessary to ensure the fiscal accountability of the state agency;
- Conducting financial, compliance, electronic data processing, and performance audits of the agency and preparing audit reports of findings; and,
- Conducting audits in accordance with the current *International Standards for the Professional Practice of Internal Auditing* as published by the Institute of Internal Auditors, Inc., or, where appropriate, in accordance with generally accepted governmental auditing standards. All audit reports issued by internal audit staff shall include a statement that the audit was conducted pursuant to the appropriate standards.

Program Audit staff perform independent audits, reviews and examinations to identify, report and recommend corrective actions for control deficiencies or for non-compliance with applicable laws, policies and procedures. Audits are conducted in accordance with the current *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors, Inc. Financial audits may be subject to the generally accepted auditing standards promulgated by the Auditing Standards Board, a division of the American Institute of Certified Public Accountants.

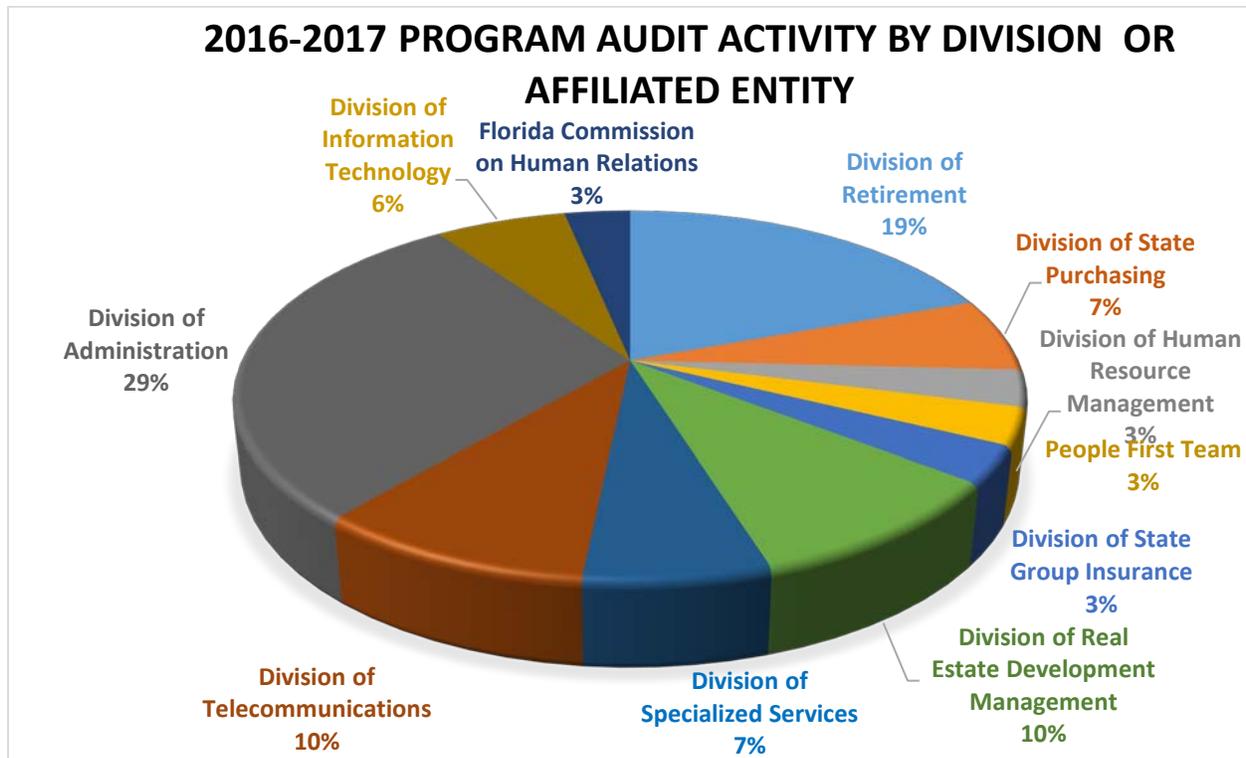
In meeting the statutory duties and responsibilities outlined above, the Program Audit Unit:

- Conducts Performance Audits to ensure the effectiveness, efficiency, and economy of department programs;
- Provides Management Assistance Services to advise management on emerging issues and concerns;

- Performs Consultant Services to partner with and assist management by providing advisory and related services aimed at adding value to the department and improving the department's governance, risk management, and control processes;
- Coordinates External Audit engagements conducted by the Auditor General, Office of Program Policy Analysis and Government Accountability, and other oversight units;
- Conducts Follow-ups of findings and recommendations identified in both internal and external audits; and,
- Assists management with Performance Measures by assessing the reliability and validity of the department's information on performance measurement and standards.

Summary of Program Audit Unit Activities in Fiscal Year 2016-2017

During Fiscal Year 2016-2017, the Program Audit Unit published two internal audit reports and completed four management advisory projects. The Program Audit Unit also ensured coordination between the Department of Management Services and external auditors. During Fiscal Year 2016-2017, nine external audits and reviews were performed by the Auditor General, the Office of Program Policy Analysis and Government Accountability, and the Department of Financial Services. Two of these external audits are ongoing.



The chart highlights the level of activity in the Divisions and Affiliated Entities by the Program Audit Unit for Fiscal Year 2016-2017.

The Program Audit Unit published two internal audit reports during the fiscal year. Both projects were enterprise wide in that they impacted all areas of the Department of Management Services.

- **Internal Audit Report Number 2016-8787 Audit of Department Cash Receipts Process**

The objective of this audit was to perform an assessment of internal controls related to handling and processing of Department of Management Services' cash receipts. Special emphasis was made to determine the risk of fraud. The results of this audit noted that improvements were needed in procedures associated with cash receipts, to include the following:

- Physical security of cash receipts during processing;
- Cash receipts processing requirements for remote locations;
- Procedures to help ensure segregation of duties;
- Timelines for transmitting and processing receipts; and,
- Required documentation for processing receipts.

The audit included the following recommendations:

- Financial Management Services should update its policies and procedures to ensure adequate internal controls for cash receipts processing and compliance with statutory requirements;
- Management should identify all areas processing cash receipts, evaluate risks, and determine if cash receipts currently being processed in other divisions should be transferred to Financial Management Services;
- Financial Management Services should communicate the updated policies and procedures with divisions and other areas processing receipts. Financial Management Services should also provide education and training to these areas; and,
- Financial Management Services should monitor compliance with policies, procedures, and statutes.

- **Internal Audit Report Number 2017-7 Physical Security Audit**

The objective of this audit was to evaluate the physical security measures and internal controls used to safeguard personnel and prevent unauthorized access to the Department of Management Services' facilities located at 4030 and 4050 Esplanade Way, Tallahassee, Florida. The results of this audit are confidential and exempt from public record under section 119.071(3), F.S.

Management Advisory Projects

- Limited Review of Department of Management Services Draft Policy for the Use of Digital Signatures and Electronic Records
The objective of this limited review was to review and evaluate the draft policy for the use of Digital Signatures and Electronic Records. The results of the review noted additional elements to include in the policy.
- Limited Review of Department of Management Services Single Audit Act Procedures and Process
The objectives of this limited review were to review the Department of Management Services' processes and controls related to the Florida Single Audit Act for compliance with governing directives and to determine management's awareness of their roles and responsibilities under the Florida Single Audit Act. The results of this review identified improvements needed in the following areas:
 - Written policies and procedures;
 - Documentation of agreements; and,
 - Staff training.
- Limited Review of Integrated Retirement Information System Audit Remediation Effort
The objectives of this limited review focused on evaluating selected information technology controls applicable to the Integrated Retirement Information System, and selected application-level general controls over access controls for the audit findings disclosed in the Auditor General's **Operational Audit of IRIS, Report No. 2017-101**. The results of this review indicated that the information technology controls related to the Integrated Retirement Information System application user access authorization and periodic reviews are operating effectively, and that management has appropriately addressed the access authorization control deficiencies identified in the Auditor General's operational audit report.
- Limited Review of People First Vendor's Audit Report
The objective of this limited review focused on reviewing the Statement on Standards for Attestation Engagements (SSAE 16) Service Organization Controls which addresses the adequacy of the vendor's internal control environment relative to the systems that the department relies upon. No exceptions or follow-up items were noted.

External Audit Coordination

The Program Audit Unit coordinates information requests and management responses between external auditors and department management. The Program Audit Unit also assists with scheduling meetings between external auditors and department management as requested. When the external audit is complete and the preliminary and tentative report has been issued, the Program Audit unit provides coordination services for the required responses by management for external audit reports.

In Fiscal Year 2016-2017, the Program Audit Unit coordinated six external audits conducted by the Auditor General and one external audit conducted by the Department of Financial Services. The completed external audits contained 18 recommendations to the Department of Management Services or affiliated agencies. The Program Audit Unit also assisted with coordination of two additional external audits by the Auditor General and the Office of Program Policy Analysis and Government Accountability. These two external audits are ongoing.

External Audit Coordination		
Report Number	Audit Subject	Report Date
Auditor General Report 2017-14	Florida Retirement System and Retiree Health Insurance Subsidy Program Cost-Sharing Multiple Employer Defined Benefit Pension Plans – Schedules of Deferred Outflows for Contributions Subsequent to the June 30, 2015, Measurement Date by Employer	08/31/2016
Department of Financial Services Report SFLPP-31-15/16-DMS	Evaluation of the Department of Management Services Loss Prevention Program	12/14/2016
Auditor General Report 2017-073	Florida Retirement System Pension Plan and Other State - Administered Systems – Financial Audit	12/15/2016
Auditor General Report 2017-097	Schedules of Employer Allocations and Pension Amounts by Employer for the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program - Cost-Sharing Multiple Employer Defined Benefit Pension Plans – Financial Audit	01/19/2017
Auditor General Report 2017-101	Department of Management Services - Integrated Retirement Information System (IRIS) - Information Technology – Operational Audit	01/24/2017
Auditor General Report 2017-180	State of Florida - Compliance and Internal Controls Over Financial Reporting and Federal Awards	03/28/2017
Auditor General Report 2017-214	Department of Management Services and the Commission on Human Relations – Operational Audit	06/28/2017
Auditor General Report ⁴	Local Government Financial Reporting Systems	Ongoing

⁴ As of the date of this report, the Auditor General has not issued an audit report number.

External Audit Coordination		
Report Number	Audit Subject	Report Date
Office of Program Policy Analysis and Government Accountability Report ⁵	Evaluation of the current private prison operational contract for Gadsden Correctional Facility	Ongoing

Follow-up Reviews

During Fiscal Year 2016-2017, the Program Audit Unit published six-month status reports of corrective actions taken by the Department of Management Services on audit findings and recommendations issued by the Auditor General and the Department of Financial Services. It is the Program Audit Unit's policy to continue to monitor outstanding recommendations until corrective action has been implemented or until management accepts the risk of not implementing the recommendations. The Program Audit Unit performed seven follow-up reviews regarding the corrective action taken on prior internal and external audit report findings. The follow-up reviews noted that action plans were completed on 13 of the 22 findings. Management accepted the risk on 8 of the 22 findings. The management action plans related to the Federal Awards Audit recommendation is still in process.

Program Audit Unit Follow-up Reviews		
Report Number	Audit Subject	Date Completed
Auditor General Report 2016-159	State of Florida – Compliance and Internal Controls Over Financial Reporting and Federal Awards	09/16/2016
Auditor General Report 2015-104	Department of Management Services - Statewide Law Enforcement Radio System and Prior Audit Follow-Up - Operational Audit	09/14/2016
Auditor General Report 2016-194	Department of Management Services - Florida State Employees' Charitable Campaign – Operational Audit	11/21/2016
Auditor General Report 2017-073	Florida Retirement System Pension Plan and Other State-Administered Systems – Financial Audit	06/15/2017
Department of Financial Services Report	Evaluation of the Department of Management Services Loss Prevention Program	06/23/2017

⁵ As of the date of this report, the Office of Program Policy Analysis and Government Accountability has not issued a report number.

Program Audit Unit Follow-up Reviews		
Report Number	Audit Subject	Date Completed
SFLPP-31-15/16-DMS		
Program Audit Unit Report 2013-198	Employee Network Access Privileges and Information Technology Devices	08/24/2016
Program Audit Unit Report 2014-8555	Privately Operated Institutions Inmate Welfare Trust Fund	02/09/2017

Summary of Recommendations Related to Significant Abuses and Deficiencies Disclosed in Internal Audits During Fiscal Year 2016-2017

No significant abuses or significant deficiencies were identified by the Program Audit Unit.

Summary of Significant Recommendations Pending Corrective Action in Fiscal Year 2016-2017

Section 20.055, F.S., requires the identification of each significant recommendation described in previous annual reports on which corrective action has not been completed. The findings presented in Internal Audit Number 2016-8787 Audit of Department Cash Receipts Process remain open. Also, during the fiscal year, management accepted the risks related to open findings on the following audits:

- o Internal Audit Number 2014-8555, Privately Operated Institutions Inmate Welfare Trust Fund, Report Date: 12/8/2014; and,
- o Internal Audit Number 2013-198, Employee Network Access Privileges and Information Technology Devices, Report Date: 05/9/2013.

Performance Measurement and Department of Management Services Key Performance Indicators

None of the performance measures contained in the department's Long Range Program Plan document or the department's key performance indicators were modified during the fiscal year. Therefore, the Program Audit Unit did not perform a review of performance measures. Management is currently updating key performance measures and these measures will be reviewed for validity and reliability once changes have been made.

Internal Quality Assurance Review

In order to provide reasonable assurance that the Program Audit Unit's work conforms to the International Standards for the Professional Practice of Internal Auditing and internal policies and procedures, the internal quality assurance program is ongoing and includes continuous supervision and internal reviews. The Auditor General is responsible for conducting external assessments of the Program Audit Unit every three years in accordance with section 11.45, F.S.

During this fiscal year, as a part of the Program Audit Unit internal quality assurance program, the work papers of one audit were reviewed for compliance with auditing standards and internal audit policies and procedures. Only minor documentation recommendations were noted. Audit management is in the process of addressing these recommendations.

Risk Assessment and Planning for Fiscal Year 2017-2018

The Program Audit Unit's annual work plan is based on the results of an annual risk assessment. The purpose of developing the annual work plan is to identify, select and plan the allocation of resources for the upcoming fiscal year. Consideration is given to activities related to the development, assessment, and validation of performance measures during the planning phase. The Program Audit Unit's goal is to provide, as efficiently as possible, the greatest level of assurance and consulting services to the department. Based on current staffing, the Program Audit Unit has allocated approximately 3,476 hours for projects during Fiscal Year 2017-2018.

Retirement Compliance Audit Unit

Section 121.193, F.S., outlines the Department of Management Services responsibilities related to the conduct of external compliance audits of payroll and personnel records of participating agencies in the Florida Retirement System. This section further states:

- Audits under this section shall be made to determine the accuracy of reports submitted to the Department of Management Services and to assess the degree of compliance with applicable statutes, rules, and coverage agreements;
- Audits under this section shall be scheduled on a regular basis, as a result of concerns known to exist at an agency, or as a follow-up to ensure agency action was taken to correct deficiencies found in an earlier audit;
- Participating agencies shall furnish the Department of Management Services with information and documents that the department requires to conduct the audit and may prescribe by rule the documents that may be requested;

- The Department of Management Services shall review the agencies operations concerning retirement and social security coverage and discuss preliminary findings with agency personnel at the close of an audit; and,
- An audit report of findings and recommendations shall be submitted to department management and an audit summary letter noting any concerns and corrective action shall be submitted to the agency.

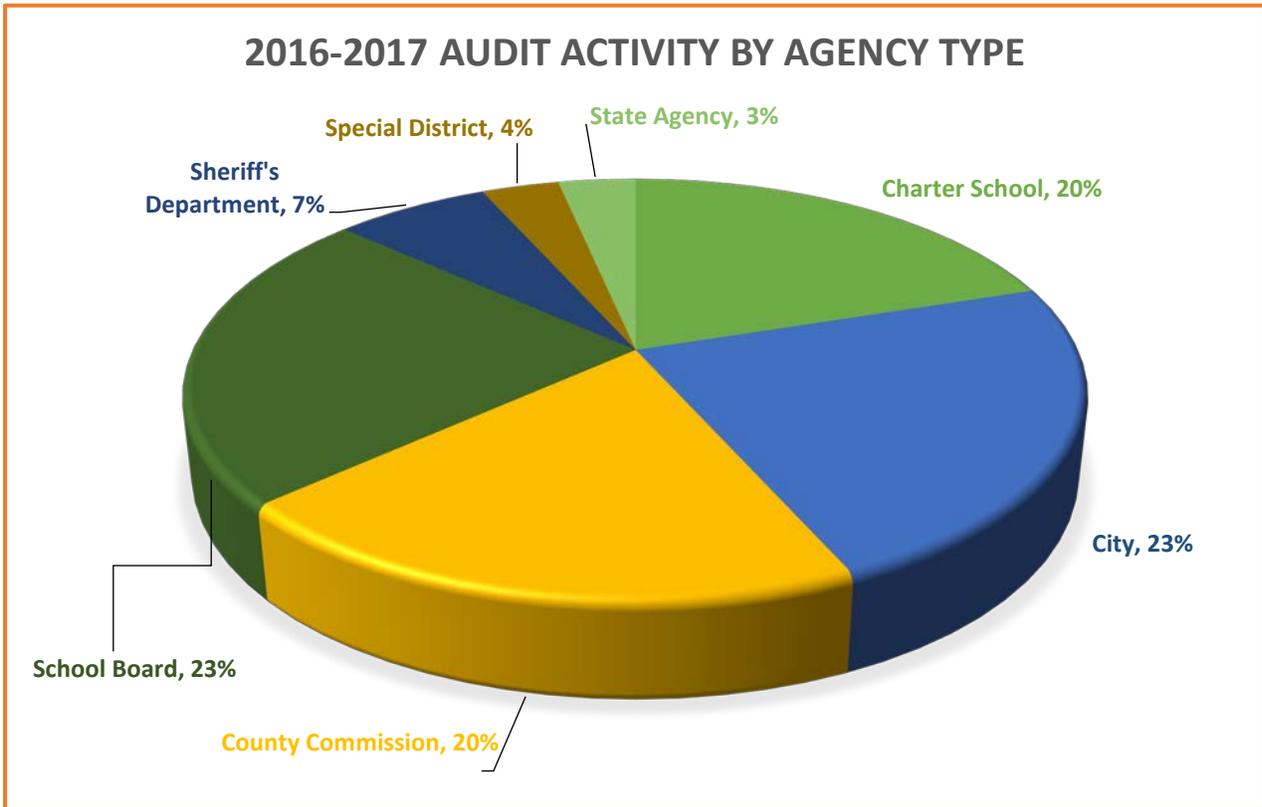
The Department of Management Services has delegated the statutory responsibilities outlined above to the Retirement Compliance Audit Unit. The Retirement Compliance Audit Unit is assigned to the Internal Audit Section of the Office of Inspector General.

Summary of Retirement Compliance Audits for Fiscal Year 2016-2017

During Fiscal Year 2016-2017, the Retirement Compliance Audit Unit completed 30 compliance audits of local government participants in the Florida Retirement System. These audits assessed the degree of compliance with applicable statutes, rules, and coverage agreements and determined the accuracy of payroll, personnel, and earnings records. These compliance audits resulted in revenue adjustments of \$400,548.00 to the Florida Retirement System Trust Fund.

Entities Audited by the Retirement Compliance Audit Unit	
Agency	Final Report Issued
Citrus MYcroSchool of Integrated Academics & Technology	11/23/2016
City of Coral Gables	12/06/2016
City of Lake Butler	08/23/2016
City of Oldsmar	06/02/2017
City of Opa Locka	02/15/2017
City of South Pasadena	02/27/2017
City of Venice	12/16/2016
Clay County Sheriff's Department	08/30/2016
Department of Management Services	07/11/2016
Escambia County School Board	05/26/2017
Hillsborough County Board of County Commissioners	01/13/2017
Lake County School Board	06/08/2017
Lee County Board of County Commissioners	11/01/2016
Leon County Board of County Commissioners	01/30/2017
Manatee County School Board	08/25/2016
Marco Island Academy	10/13/2016
Miami Dade County	09/20/2016
Miami Dade County School Board	10/14/2016
New Beginning High School	06/16/2017
North Bay Haven Charter Elementary School	10/14/2016
North Bay Haven Charter School	03/02/2017
Orange County Board of County Commissioners	04/13/2017
Orlando Science Elementary School	09/14/2016
Osceola County School Board	06/02/2017

Entities Audited by the Retirement Compliance Audit Unit	
Agency	Final Report Issued
Palm Beach County School Board	12/01/2016
Pasco County Sheriff's Department	11/21/2016
Pinellas County Board of County Commissioners	06/26/2017
St. Johns County School Board	06/30/2017
Tampa Bay Water	08/09/2016
Town of Altha	06/07/2017



The chart highlights the percentage of external compliance audits, by agency type, for Fiscal Year 2016-2017.

Summary of Significant Recommendations from External Compliance Audits Completed in Fiscal Year 2016-2017

During the fiscal year, the Retirement Compliance Audit Unit identified three primary areas in which compliance issues were noted. Audit recommendations pertaining to the following three areas were made to a significant number of participating agencies:

Workers' Compensation Adjustments

Effective July 1, 1990, a member is entitled to retirement service credit for the period of time temporary total or temporary partial workers' compensation payments are received provided the employee, upon recovery, immediately returns to active employment for one

calendar month or is approved for disability retirement. When these conditions are met, the employer is required to make retirement adjustments if the employee's earnings during this period were reported at less than his/her regular pay rate.

Recommendations related to Workers' Compensation Adjustments

- The agency should make workers' compensation adjustments for the employees identified under work period code 88, for the noted periods, if the eligibility requirements for workers' compensation retirement credit were met.
- The agency should review its records and make adjustments for all employees who received workers' compensation indemnity payments for lost wages and met the eligibility criteria for workers' compensation retirement credit.

Unreported Employees

An employee filling a regularly established position should be reported to the Division of Retirement for retirement coverage, even if the employee is serving a probationary period. An employee who fills a temporary position in a local agency that will exist longer than six months should be reported to the Division of Retirement, unless the position is exempt.

Additionally, Investment Plan members cannot return to employment with a Florida Retirement System participating employer until they have been retired for six calendar months (i.e., six calendar months following the month in which a distribution was taken). If they are reemployed by a Florida Retirement System participating employer within the six calendar month period after taking a distribution (retiring), their retirement will be voided. Additionally, during the 7th to 12th calendar months after retirement, no additional Investment Plan distributions are permitted and they cannot receive Health Insurance Subsidy payments until they either terminate employment or complete a total of 12 calendar months of retirement.

Recommendations related to Unreported Employees

- The agency should make adjustments to report the employee or employees identified for retirement coverage effective their initial date of hire because they were hired for a period exceeding six calendar months; or,
- The agency should make adjustments to report the employee or employees identified for retirement coverage on the first day of the seventh calendar month or on the first day of the month following the month in which the decision was made to extend the position beyond six months, if earlier.
- The agency should review its records and make adjustments for any other employees who were incorrectly excluded from retirement coverage based on the above criteria.

- The Bureau of Enrollment and Contributions and the State Board of Administration should review the Investment Plan employee identified during the course of the audit to confirm that a violation has occurred. The State Board of Administration will contact the employee and the employer, if needed, regarding the next steps.
- The agency should review its records to identify any other unreported employees who have retired and worked within the first six months of their Investment Plan distribution and contact the State Board of Administration to determine if there are additional reemployment violations.

Unreported Wages

All payments that meet the definition of compensation as provided in the Florida Retirement System Rules, section 60S-6.001(16)(a), Florida Administrative Code, must be reported for retirement purposes.

An employee filling a regularly established position who performs additional duties for the same Florida Retirement System employer is considered to be filling a regularly established position for the total employment; therefore, all earnings should be reported for Florida Retirement System coverage.

Recommendations Related to Unreported Wages

- The agency should make adjustments to report the employee or employees identified who have received payments that meet the definition of compensation.
- The agency should make adjustments to report the payments that meet the definition of additional pay for additional duties.

Internal Quality Assurance Review

During this fiscal year, as a part of the Retirement Compliance Audit Unit internal quality assurance program, the work papers of one audit were reviewed for compliance with auditing standards and internal audit policies and procedures. Only minor documentation recommendations were noted.

Risk Assessment and Planning for Fiscal Year 2017-2018

The Retirement Compliance Audit Unit's annual audit schedule is based on the results of an annual risk assessment. The risk assessment consists of surveying retirement management to identify agencies where risk of non-compliance with Florida Retirement Plan requirements is higher. Additionally, Retirement Compliance Audit Unit staff members consider prior and current audit findings, previous audits performed, and agency size and type. Based on current staffing, the Retirement Compliance Audit Unit has allocated approximately 6,390 hours for the completion of 191 audits during Fiscal Year 2017-2018.