



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

May 11, 2012

The Honorable Jeff Atwater
Chief Financial Officer
The Capitol, PL-11
Tallahassee, Florida 32399-0301

Dear Mr. Atwater:

As required by Section 20.055, Florida Statutes, I have enclosed the Department's six-month status report of corrective actions taken in response to Auditor General Report Number 2012-026, *Department of Financial Services Division of Agent and Agency Services Operational Audit* (published November 16, 2011).

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Ned Luczynski".

Ned Luczynski

NL:sll

Enclosure

cc: Robert Kneip, Chief of Staff
Tami Torres, Deputy Chief Financial Officer
Kathy DuBose, Coordinator, Joint Legislative Auditing Committee

Department of Financial Services
Office of Inspector General

**SIX-MONTH FOLLOW-UP REPORT
STATUS OF CORRECTIVE ACTION**

Reviewing Entity	Report No.	Report Title	Date Published
Auditor General	2012-026	<i>Department of Financial Services Division of Agent and Agency Services Operational Audit</i>	November 16, 2011
Finding No. 1	The Department had not prepared detailed analyses comparing particular categories of regulatory costs to the revenues designated to cover those costs.		
Recommendation	We recommend the Department conduct periodic comparisons of the costs of industry regulation and the associated designated fees and taxes. Any indicated need for changes in rates should be brought to the Legislature's attention.		
Original Response	<p>We concur. Beginning with the second quarter of Fiscal Year 2010-11, the Department began providing Legislative staff with a quarterly Trust Fund Analysis Report of Insurance Regulatory Trust Fund (IRTF) revenues collected and associated expenses, by regulatory function. The analysis compares current revenues and expenditures with estimated revenues and expenditures by function, and current revenues and expenditures to prior year revenues and expenditures.</p> <p>While the balance in the IRTF has fluctuated over time, we expect fund revenues to remain fairly constant in the near future. As of July 1, 2011, the IRTF had a total expendable fund balance of approximately \$90 million. [Note: per Section 766.314(5)(b), Florida Statutes, the IRTF has an additional \$20 million reserve requirement for the Florida Birth-Related Neurological Injury Compensation Association.] The Legislative Budget Request for Fiscal Year 2012-13 projects that total revenue collected in Fiscal Year 2011-12 will match the IRTF's total fiscal year expenses. We will continue to provide Legislative staff with quarterly analyses of IRTF revenues and expenses, and if the need for a change in rates is indicated, the Department will bring this information to the Legislature's attention.</p>		
Six-month Follow-up:	May 16, 2012		
Responsible Division	Division of Administration Division of Agents and Agency Services		
Reported Status	The Department has continued to provide the Legislature with quarterly analyses of Insurance Regulatory Trust Fund (IRTF) revenues and expenditures. The Department provided the Fiscal Year 2011-12 third quarter Trust Fund Analysis Report to the Legislature on May 4, 2012. The quarterly Trust Fund Analysis Reports provide the Legislature with the information on IRTF revenues and program expenditures necessary to make decisions regarding rate changes.		
OIG Assessment	CLOSED. It appears management's actions sufficiently address the audit finding and recommendation.		

Department of Financial Services
Office of Inspector General

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Auditor General	2012-026	<i>Department of Financial Services Division of Agent and Agency Services Operational Audit</i>	November 16, 2011
Finding No. 2	The Division had not provided for adequate oversight of the information technology controls relevant to the system used to support Division licensing functions.		
Recommendation	Because of the critical nature of the data maintained by ALIS, we recommend that the Division amend the information technology services contract and that the Department make or obtain an independent periodic assessment of the contractor's relevant internal controls.		
Original Response	We concur. On July 1, 2011, the Department entered into a new agreement with the contractor. The new contract included provisions requiring the contractor to adhere to the Division of Information Systems' (DIS) formal Change Management Process, which includes DIS's official Information Systems Development Methodology, use of a change tracking tool, and adherence to DIS policies, procedures, and standards for information technology functions within the Department. These requirements provide the framework for the Department's control and review over information technology services provided by contract. Also, DIS will take steps to implement additional monitoring controls to ensure the integrity, reliability, and security of ALIS data.		
Six-month Follow-up:	May 16, 2012		
Responsible Division	Division of Agents and Agency Services Division of Information Systems		
Reported Status	Through the new information technology services contract and the contractor's required use of the DIS Change Management Process and Information Systems Development Methodology, the Department has provided an internal control framework to ensure the ongoing integrity, reliability, and security of ALIS data.		
OIG Assessment	CLOSED. It appears management has taken appropriate action.		

Department of Financial Services
Office of Inspector General

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Reviewing Entity	Report No.	Report Title	Date Published
Auditor General	2012-026	<i>Department of Financial Services Division of Agent and Agency Services Operational Audit</i>	November 16, 2011
Finding No. 3	The Department had not properly assessed and collected certain required fees.		
Recommendation	We recommend that the Department continue its efforts to implement procedures to assess and collect all required fees.		
Original Response	We concur. Significant information technology issues have caused delay in collecting certain fees. However, the Department is committed to ensuring these fees are collected, and the necessary information system modifications are currently underway. We anticipate these modifications will be completed by January 2012.		
Six-month Follow-up: May 16, 2012			
Responsible Division	Division of Agents and Agency Services		
Reported Status	System changes were deployed January 18, 2012 to begin collecting the noted fees. During the period from implementation through April 30, 2012, the Division has collected a total of \$126,900. The Division expects fee revenues will decrease over time as the industry becomes more aware of the fees and establishes processes to ensure timely payment.		
OIG Assessment	CLOSED. Management has implemented the planned corrective action.		

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Auditor General	2012-026	<i>Department of Financial Services Division of Agent and Agency Services Operational Audit</i>	November 16, 2011
Finding No. 4	A significant number of investigations were not closed within Department-established timeframes.		
Recommendation	We recommend the Bureau take steps to improve the timeliness of investigations.		
Original Response	<p>We concur. Instituting rigorous standards encourages staff to excel in their work and to identify ways to improve business processes. Bureau of Investigation (Bureau) management felt that establishing easily attainable standards would create a stagnant environment which could discourage performance and process improvements. Management developed the existing standards with the understanding that a percentage of cases would fall outside established timelines. Bureau investigators frequently encounter significant delays in obtaining information from external parties, such as banks and insurers. However, the Bureau's standards reflect investigative time, only, and do not include a factor for response time. Because the number of days taken to complete an investigation includes the response time of external entities, many cases are not closed within established standards.</p> <p>The Bureau is committed to maintaining rigorous standards and will be addressing the performance of those employees with cases outside established guidelines as part of the annual performance review process. Bureau management will review the appropriateness of existing standards in light of current staffing levels and caseloads, and will explore ways to calculate the amount of actual investigatory time spent on cases. The Bureau will also evaluate established business processes to identify actions that can be taken to reduce the overall length of time necessary to properly complete an investigation.</p>		
Six-month Follow-up:	May 16, 2012		
Responsible Division	Division of Agents and Agency Services		
Reported Status	<p>The Division is working to improve business processes and operating systems in an effort to reduce the overall length of investigations. The scheduled deployment in June 2012 of a new case tracking system will facilitate additional process improvements allowing for further reductions in the overall time to complete investigations. The deployment will also support a more comprehensive internal audit program to assist in identifying process and staffing related issues which cause delay. In addition, Division leaders continue to stress to staff the importance of timely completion of investigative cases, while maintaining the integrity and quality of the investigation. Efforts to date have resulted in improvements in the timeliness of investigations. For example, in April 2012, 22% of cases were closed after the designated timeframe, which is appreciably less than the 27% identified during the audit period.</p>		
OIG Assessment	<p>CLOSED. Our review showed that management has achieved results in this area and is actively engaged in efforts to improve the timeliness of investigations. We therefore concluded that continued monitoring of this issue is not required.</p>		