



DEPARTMENT OF MANAGEMENT
SERVICES

RICK SCOTT
Governor


JOHN P. MILES
Secretary

4050 Esplanade Way | Tallahassee, Florida 32399-0950 | Tel: 850.488.2786 | Fax: 850.922.6149

MEMORANDUM

DATE: December 28, 2011

TO: Jack Miles, Secretary

FROM: Steve Rumph, Inspector General 

SUBJECT: Six-Month Status Report to Auditor General Report No. 2011-196

Pursuant to Section 20.055(5)(h), Florida Statutes, the following is our explanation of the six-month status of findings and recommendations included in the Auditor General's Report No. 2011-196, **Local Government Financial Reporting System**, dated June 30, 2011.

One finding and recommendation remains open from the original audit report. Based on our review and discussion with the Division of Retirement staff, we are recommending that the finding and recommendation be closed.

Six-Month Status Report

Finding 12: Insurance Premium Tax Distributions

DMS did not always withhold insurance premium tax moneys from entities when actuarial reports of police and firefighter retirement plans had not been State accepted.

Recommendation:

DMS should continue its efforts to ensure that actuarial reports are timely reviewed. Additionally, DMS should ensure that insurance premium tax distributions are not approved unless the actuarial reports for the retirement plans have been State accepted in accordance with Part VII of Chapter 112, Florida Statutes.

DMS Response:

DMS has and continues to use all available resources to ensure timely actuarial reviews of pension plans. In order to accomplish this objective, DMS maintains two internal actuary positions and has a contract with an external actuarial firm to supplement its internal review capacity. To this end, DMS eliminated its backlog of actuarial reviews prior to the end of 2009 as recognized by the Auditor General.

As indicated in the audit finding, the Auditor General sampled data for 50 police and firefighter retirement plans for which distribution was made during the period of August and September 2009. Of the 50 plans sampled, the Auditor General identified 11 plans for which distribution of insurance premium tax moneys was approved yet had not been state accepted under Part VII of Chapter 112, Florida Statutes. Of the 11 identified plans, 6 were part of the backlog that DMS eliminated prior to the end of 2009. The other 5 had been reviewed within the preceding 3-year period, but had not yet been state accepted. Therefore, the data sampled did not reflect the most recently completed reviews for those plans.

Since the elimination of the backlog, a decrease in funding has limited the department's use of the external actuarial firm. Potentially, this could lead to a re-occurrence of the backlog. To minimize the likelihood of release of tax moneys to plans that have not been state accepted pursuant to Part VII of Chapter 112, Florida Statutes, DMS will assign a higher priority to actuarial reviews of police and firefighter plans (350 of the 490 plans). Concurrent with this action, DMS will ask the Legislature to revise Chapter 175 and 185, Florida Statutes to allow the distribution of funds when the lack of a current review is not the fault of the plan.

Six-Month Status of Recommendation No. 12:

The subsequent decrease in funding did result in a reduction of the number of plans reviewed under external contract in fiscal years 2009/2010 and 2010/2011. However, no backlog occurred and all plans are currently within the established triennial review schedule.

All actuaries conducting the reviews have been instructed to assign higher priority to the police & fire plans over the general plans to help ensure completion prior to the premium tax distribution cutoff date. Plans that are determined not to be operating in compliance with part VII of chapter 112, Florida Statutes, prior to the cutoff date are ineligible to receive the premium tax distribution.

Office of Inspector General Position:

We agree with the actions taken by the Division of State Purchasing and recommend that this finding be closed

John P. Miles
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cc: Kathy Dubose, Coordinator, Joint Legislative Auditing Committee
David W. Martin, Auditor General
Sarabeth Snuggs, Director, Retirement
Keith Brinkman, Chief, Bureau of Local Government Retirement Systems