

FLORIDA OFFICE OF
FINANCIAL  REGULATION

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Office of Inspector General

July 11, 2019

Ronald L. Rubin
Commissioner of Office of Financial Regulation
Fletcher Building
200 East Gaines Street
Tallahassee, Florida 32399-0370

Re: Six Month Audit Follow-up – Auditor General Report No. 2019-104: Office of Financial Regulation Division of Securities and Prior Audit Follow-up

Dear Commissioner Rubin:

Pursuant to Florida Statutes, Section 20.055(6)(h), the Office of Inspector General is required to provide a written response to the agency head on the status of corrective actions taken no later than six months after publication of a report on the state agency by the Auditor General. A copy of the response is also filed with the Legislative Auditing Committee.

Information regarding the status of corrective actions that management has taken in response to the Auditor General's reported findings, dated January 18, 2019, is provided in the attached documentation.

Sincerely,



Bradley Perry
Inspector General

cc: Abigail Vail, Chief of Staff
Joint Legislative Auditing Committee

Six Month Audit Follow-up – Auditor General Report No. 2019-104:
Office of Financial Regulation (OFR) Division of Securities and Prior Audit Follow-up
Status as of July 11, 2019

DIVISION OF SECURITIES – SECURITIES REGULATION

Auditor General Finding 1: Regulatory Filings

The Division did not always report, or timely report, to the Central Registration Depository (CRD) system and the Investment Advisor Registration Depository (IARD) system used by other securities regulators, disciplinary actions taken against broker-dealers, investment advisor firms, and associated persons of broker-dealers and investment adviser firms.

Auditor General Recommendation: We recommend that Division management enhance oversight controls to ensure that staff timely file U6 forms in the CRD and IARD systems.

Management Response Summary - Concurrence:
In response to this audit, the Division has further enhanced its oversight of this process within the Bureau of Enforcement in the following ways: the manager overseeing the process is now being copied on all disciplinary actions originated by the Bureau of Enforcement and will perform monthly quality control checks; the position accountable for preparing Form U6 filings has allocated time on a weekly basis to ensure that the filings are made timely; and lastly, performance measures will be added to the responsible party's position so that timeliness can be measured.

Status: Complete

The Division added a designated Financial Administrator to the email list for Final orders in January 2019. A designated Financial Specialist has allocated time on a weekly basis to prepare Form U6 filings, and sends an email to the Financial Administrator when the Form U6 is inputted. The Financial Administrator manages a specified message folder of docketed final orders and the Financial Specialist's filing confirmations. The Financial Administrator conducts quality assurance reviews at least monthly.

Division management has added the following performance measure to the designated Financial Specialist's Performance Expectations for the review period beginning 7/1/2019: *Processes U6 filings within 30 days of receipt of an event meeting submission requirement based on legal determination of appropriateness.* The standard and rating have been specified.



Auditor General Finding 2: Complaints Processing


Division procedures for processing and documenting securities regulation complaints in the Regulatory Enforcement and Licensing (REAL) system need improvement.

Auditor General Recommendation: We

Management Response Summary - Concurrence:

Status: Complete




<p>recommend that Bureau management strengthen oversight controls, including quality assurance reviews, to ensure that Bureau staff adhere to established policies and procedures for handling complaints and documenting complaint processing activities.</p>	<p>The Division has reviewed its complaint process and will amend the Bureau of Enforcement Examination Standards and Operation Guide during the first quarter of 2019 to clarify the complaint handling process. Management will provide training to both the area financial managers and examiners on the proper protocols relating to each phase of the complaint process during the first quarter of 2019. This training will be documented for staff as a reference tool. Lastly, the quality assurance process will be strengthened to ensure that each component of the complaint procedures is being adhered to by staff.</p>	<p>Division management published amendments to the complaints handling section in the Bureau of Enforcement Standards and Operation Guide on 1/31/2019. Management created training for managers and staff on all steps of processing a complaint, and delivered the training to Area Financial Managers on 2/12/2019 and to all staff on 2/27/2019. The training is documented and available to employees as a reference.</p> <p>Closed complaints are now reviewed at least monthly by a designated staff member, and management has observed improvement in the processing of complaints by staff and managers. The Financial Administrator also conducts and documents spot check quality assurance reviews of the monthly reviews.</p>
<p><u>BUREAU OF FINANCIAL INVESTIGATIONS – FINANCIAL INVESTIGATIONS</u></p>		
<p><u>Auditor General Finding 3: Investigation Records</u> As similarly noted in our report No. 2016-196, Bureau of Financial Investigations records sometimes did not include all required investigation documentation.</p>		
<p>Auditor General Recommendation: We recommend that Bureau management ensure that REAL system records for all investigations include completed Case Audit Checklists and the required investigation documentation.</p>	<p>Management Response Summary - Concurrence: BFI is taking the additional step of creating a performance measure to be added to the Performance Evaluation for each BFI manager to ensure proper completion of the Case Audit Checklist. BFI management will continue to train its investigators and managers to attach all required investigative documents and the completed Case Audit Checklist to the REAL record. In addition, Bureau Management is requiring the BFI training coordinator to review all closed investigations in REAL within 30 days of case closure to ensure that the required investigative documents are attached to the REAL record and to ensure that all case audit checklists have been properly completed. Completion of the review by the BFI training coordinator will be noted in the REAL record by a newly created activity code.</p>	<p>Status: Complete </p> <p>The BFI Training Coordinator now notes each closed case record with Activity Code “QAR” upon completion of a Quality Assurance Review.</p> <p>Bureau management has added the following performance measure to the Investigations Managers’ (Area Financial Managers) Performance Expectations for the review period beginning 7/1/2019: <i>Ensures that Case Audit Checklists are completed at case closure for all cases other than Assists to other Divisions or Agencies.</i> The standard and rating have been specified.</p>

OFR PROGRAMS & POLICY - REAL SYSTEM CONTROLS

Auditor General Finding 4: REAL System Access Controls


The Office did not always timely deactivate user access privileges to the REAL system upon an employee's separation from Office employment.

<p>Auditor General Recommendation: We recommend that Office management strength controls to ensure that REAL system access privileges are timely deactivated upon an employee's separation from Office employment.</p>	<p>Management Response Summary - Concurrence: In addition, the Office will update its procedures to ensure proper communication between all employees responsible for this task and add a layer of control to follow up and validate each timely deactivation. The Office expects to finalize the updated policy within 30 days.</p>	<p>Status: In Progress </p> <p>The Office modified existing policy on 2/6/2019. The changes include requirements that, 1) management timely notify designated staff of an employee separation; 2) designated staff accomplish deactivation from REAL within five (5) business dates of employee separation; and 3) designated staff participate in and follow-up to quarterly access reviews.</p> <p>In an effort to further enhance controls over employee separation notifications, the Office is drafting new separation procedures.</p>
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DIVISION OF CONSUMER FINANCE – MONEY SERVICES BUSINESS INVESTIGATION REFERRALS

Auditor General Finding 5: Referrals to the DFS Division of Investigative and Forensic Services

Office controls for ensuring that all money services business (MSB) referrals for investigation are timely submitted to the Department of Financial Services, Division of Investigative and Forensic Services, continue to need enhancement.

<p>Auditor General Recommendation: We again recommend that Office management take appropriate actions to ensure that all MSB investigation referrals are timely sent to, and received by, the DFS DIFS.</p>	<p>Management Response Summary - Concurrence: The Division of Consumer Finance has enhanced its internal procedures by adding an additional layer of control to ensure referrals are being handled in accordance with protocols. The additional layer of control is in the form of a monthly and quarterly REAL report that identifies all activities documenting investigative referrals to DFS DIFS. The report will provide management the ability to ensure the referrals were entered correctly, assigned to the appropriate staff, and followed up in a timely manner with DFS DIFS when a response has not been received confirming receipt of the referral. The revised procedure was updated on 1/15/2019 reflecting the additional layer of control.</p>	<p>Status: Complete </p> <p>The Division has audited all DFS DIFS referrals since it revised procedures on 1/15/2019, and has confirmed each referral was timely sent to and received by DFS DIFS within the established procedures.</p>
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