



CHIEF FINANCIAL OFFICER  
**JEFF ATWATER**  
STATE OF FLORIDA

March 21, 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 2012-008, *Department of Financial Services Treasury Investment Policies and Prior Audit Follow-up* (issued September 27, 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  
Paul Whitfield, 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	2012-008	<i>Department of Financial Services Treasury Investment Policies and Prior Audit Follow-up</i>	September 27, 2011
<b>Finding No. 1</b>	The Treasury's investment policies, procedures, and Web site disclosures could be improved by amending them to include certain provisions recommended by Government Finance Officer Association guidance.		
<b>Recommendation</b>	We recommend that the Treasury amend its investment policies, procedures and Web site disclosures, as applicable, to incorporate coverage of share valuation, structured investments and derivatives, standards of care, safeguarding and custody of securities, internal controls, reporting, investment policy review and approval, Investment Committee members, and Investment Committee meeting minutes. We also recommend that the Treasury submit its policies, procedures, and Web site disclosures to its investment consultant for review and that the Department's Inspector General be tasked with the conduct of periodic internal audits of the effectiveness of Pool internal controls.		
<b>Original Response</b>	<p>We concur. Prior to the start of this audit, Treasury staff was actively working to finalize a Comprehensive Investment Policy (CIP). The purpose of the CIP is to update the individual portfolios' investment policies and combine them into one overall policy. The CIP also documents the Treasury's investment operating structure and general operational policies. In developing the CIP, Treasury staff worked closely with the Treasury Investment Committee and our external investment consultant. Based on recommendations from the Investment Committee and our external investment consultant, the CIP was approved effective August 26, 2011, and has been published on the Treasury's Web site.</p> <p>Providing an appropriate level of investment disclosures is a dynamic and continuous process. Over the past year, Treasury staff have greatly clarified and enhanced the investment information and disclosures provided on the Treasury Web site and will continue with these efforts.</p> <p>Treasury staff, working with the Treasury Investment Committee and external investment consultant, will conduct further analysis of our Comprehensive Investment Policy, investment procedures, and Web site disclosures and implement any further changes deemed appropriate.</p> <p>Pursuant to Section 20.055, Florida Statutes, the Office of Inspector General establishes annual and long-term audit plans based on the results of an annual risk assessment. The Department's Inspector General will conduct periodic internal audits of Treasury's internal controls consistent with the results of such risk assessments.</p>		
<b>Six-month Follow-up:</b>	March 27, 2012		
<b>Responsible Division</b>	Division of Treasury		

**Department of Financial Services  
Office of Inspector General**

<b>Reported Status</b>	Treasury Staff continue to review our policies, procedures, and web site disclosures. Based on our review, we have made further updates to our Comprehensive Investment Policy which have been reviewed and approved by the Investment Committee. We have also enhanced our procedures and web site to incorporate changes we deem appropriate.
<b>OIG Assessment</b>	<b>CLOSED.</b> The division's actions appear to appropriately address the finding and recommendation.

Department of Financial Services  
Office of Inspector General

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Reviewing Entity	Report No.	Report Title	Date Published
Auditor General	2012-008	<i>Department of Financial Services Treasury Investment Policies and Prior Audit Follow-up</i>	September 27, 2011
<b>Finding No. 2</b>	The Department should continue its efforts, in consultation with the Legislature, to affect changes to current Florida law that would allow for a functional Qualified Public Depository Oversight Board.		
<b>Recommendation</b>	We recommend that the Department continue to pursue the establishment of an advisory committee.		
<b>Original Response</b>	We concur. Treasury staff is working with the Florida Bankers Association (FBA) concerning revisions to Chapter 280, Florida Statutes. The proposed changes will include the removal of the Bank Oversight Board and the reestablishment of the Qualified Public Depository Advisory Board. The Department will bring these changes to the Legislature's attention in the upcoming session.		
<b>Six-month Follow-up:</b> March 27, 2012			
<b>Responsible Division</b>	Division of Treasury		
<b>Reported Status</b>	The necessary changes were not adopted during the most recent legislative session. Therefore, we will continue to work with the Department's legislative staff and the Florida Bankers Association to ensure the changes will be adopted next legislative session.		
<b>OIG Assessment</b>	<b>CLOSED.</b> Although the division's legislative initiative was not adopted during the most recent legislative session, the division will continue to seek the recommended statutory revisions. The OIG therefore determined that further monitoring of this issue is not required.		

Department of Financial Services  
Office of Inspector General

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Auditor General	2012-008	<i>Department of Financial Services Treasury Investment Policies and Prior Audit Follow-up</i>	September 27, 2011
<b>Finding No. 3</b>	The Department had not adopted rules to enumerate the circumstances under which collateral pledging levels may differ from levels computed under existing law and rule.		
<b>Recommendation</b>	We again recommend that the Department amend its rules as necessary to enumerate the circumstances under which analysts may change the collateral pledging levels from those computed by CAP.		
<b>Original Response</b>	We concur. We will revise the appropriate Rule to enumerate the circumstances under which analysts may change the collateral pledging levels from those computed by CAP. However, we will delay this action pending the anticipated revision of Chapter 280, Florida Statutes, in the upcoming legislative session. At that time, we will include the Rule change as part of a larger rulemaking initiative we will undertake to implement the expected statutory revisions.		
<b>Six-month Follow-up:</b> March 27, 2012			
<b>Responsible Division</b>	Division of Treasury		
<b>Reported Status</b>	Chapter 280, Florida Statutes, was not updated in the legislative session that just ended. Therefore, we will pursue updating the Rule as an individual issue.		
<b>OIG Assessment</b>	<b>OPEN.</b> The OIG will continue to monitor implementation of the recommendation until such time as the division initiates action to revise rule.		

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Office of Inspector General

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Auditor General	2012-008	<i>Department of Financial Services Treasury Investment Policies and Prior Audit Follow-up</i>	September 27, 2011
<b>Finding No. 4</b>	The Department had not adopted rules identifying the conditions under which a Qualified Public Depository with low financial condition rankings may submit a request to delay the provision of additional collateral, criteria to evaluate such a request, or the time frame within which a hardship case must ultimately meet a required collateral level.		
<b>Recommendation</b>	We again recommend that the Department establish by rule the conditions under which a hardship request may be submitted by a QPD, the criteria to be used by the Department to evaluate hardship requests, and the maximum time frame within which a transition to a required collateral level must be completed.		
<b>Original Response</b>	We concur. We will revise the appropriate Rule to establish the conditions and guidelines for the hardship requests and maximum time frames for completion of the required actions. However, we will delay this action pending the anticipated revision of Chapter 280, Florida Statutes, in the upcoming legislative session. At that time, we will include the Rule change as part of a larger rulemaking initiative we will undertake to implement the expected statutory revisions.		
<b>Six-month Follow-up:</b> March 27, 2012			
<b>Responsible Division</b>	Division of Treasury		
<b>Reported Status</b>	Chapter 280, Florida Statutes, was not updated in the legislative session that just ended. Therefore, we will pursue updating the Rule as an individual issue.		
<b>OIG Assessment</b>	<b>OPEN.</b> The OIG will continue to monitor implementation of the recommendation until such time as the division initiates action to revise rule.		

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Auditor General	2012-008	<i>Department of Financial Services Treasury Investment Policies and Prior Audit Follow-up</i>	September 27, 2011
<b>Finding No. 5</b>	As similarly noted in audit report No. 2009-091, subsidiary worksheets used to track and value abandoned securities continued to contain inaccurate and incomplete information.		
<b>Recommendation</b>	We again recommend that the Bureau reconcile all investment worksheets to UPMIS. Additionally, the Bureau should continue its efforts to determine the feasibility of making changes to UPMIS to accommodate the tracking and valuation of investments held by outside holders. Additionally, the Bureau should ensure that investments are appropriately valued.		
<b>Original Response</b>	The Bureau concurs. The Bureau has worked diligently with its new contracted securities custodian to liquidate as many securities as possible, resulting in a decrease in the number of investment worksheets from 341 to 11. The Bureau will review its current procedures and make changes to require periodic reconciliation and proper valuation of the investment worksheets. Lastly, the Bureau will continue its efforts to determine the feasibility of making changes to the Unclaimed Property Management Information System (UPMIS) to accommodate the tracking and valuation of investments held by outside holders. This enhancement is one of many UPMIS-related priorities for the Bureau.		
<b>Six-month Follow-up:</b> March 27, 2012			
<b>Responsible Division</b>	Division of Accounting and Auditing		
<b>Reported Status</b>	The Bureau has continued to work with its contracted securities custodian, eliminating the need for investment tracking spreadsheets to be created. The Bureau has further reduced the number of existing tracking spreadsheets from 11 to two (2). The Bureau anticipates that the securities associated with the remaining two spreadsheets will be reissued or liquidated in the next 60 days. The Bureau is continuing to seek enhancements to the Unclaimed Property Management Information System (UPMIS) to accommodate the tracking and valuation of investments held by outside holders, which remains one of many UPMIS-related priorities for the Bureau.		
<b>OIG Assessment</b>	<b>Closed.</b> The bureau's actions to eliminate the need to maintain investment tracking spreadsheets appear to adequately address the issue.		