

**DEPARTMENT OF MANAGEMENT  
SERVICES**

**MONITORING OF LOCAL GOVERNMENT  
RETIREMENT PLANS AND  
THE MYFLORIDAMARKETPLACE CONTRACT**

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**Operational Audit**



## SECRETARY OF THE DEPARTMENT OF MANAGEMENT SERVICES

Section 20.22, Florida Statutes, creates the Department of Management Services. The head of the Department is the Secretary, who is appointed by the Governor and subject to confirmation by the Senate. The following individuals served as Secretary during the period of our audit:

Craig Nichols	From July 9, 2012
Scott Stewart, Interim	From April 1, 2012, through July 8, 2012
Jack Miles	Through March 31, 2012

The audit team leader was Susan C. Phelan, CPA, and the audit was supervised by Janet K. Bentley, CPA. Please address inquiries regarding this report to Christi V. Alexander, CPA, Audit Manager, by e-mail at [christialexander@aud.state.fl.us](mailto:christialexander@aud.state.fl.us) or by telephone at (850) 412-2786.

This report and other reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**DEPARTMENT OF MANAGEMENT SERVICES**  
Monitoring of Local Government Retirement Plans and  
the MyFloridaMarketPlace Contract

**SUMMARY**

This operational audit of the Department of Management Services (Department) focused on the Department’s monitoring of local government retirement plans and procurement of the MyFloridaMarketPlace (MFMP) contract. Our audit disclosed the following:

**MONITORING OF LOCAL GOVERNMENT RETIREMENT SYSTEMS**

**Finding No. 1:** The Department could not always demonstrate that statutorily mandated local government retirement plan reviews were performed in accordance with established procedures and State law.

**Finding No. 2:** The information presented in the Department’s *Florida Local Government Retirement Systems Annual Report* could be enhanced to better meet the needs of the Legislature and other decision makers.

**MYFLORIDAMARKETPLACE CONTRACT**

**Finding No. 3:** Contrary to State law, the Department did not use a present-value methodology to evaluate the vendor cost proposals for the MFMP procurement.

**BACKGROUND**

The Department of Management Services (Department) serves as the business arm of State government, and as such, provides a variety of centralized services including State group insurance benefits administration, human resource management support, State facilities management, telecommunications services, private prison contract management, and administration of the Florida Retirement System. Department services also include the establishment of State term contracts and purchasing agreements for State agencies and other eligible users, and providing centralized Web-based electronic procurement (eProcurement) services through the Department, Division of State Purchasing. The Department is also responsible for monitoring Florida’s local government defined benefit retirement plans for compliance with State laws and rules.

**FINDINGS AND RECOMMENDATIONS**

**Monitoring of Local Government Retirement Systems**

State law<sup>1</sup> provides that it is the intent of the Legislature that government retirement systems and plans be managed, administered, operated, and funded in such a manner as to maximize the protection of public employee retirement benefits. State law further states that it is the intent of the Florida Protection of Public Employee Retirement Benefits Act<sup>2</sup> to prohibit the use of any procedure, methodology, or assumptions the effect of which is to transfer to future taxpayers any portion of the costs which may reasonably have been expected to be paid by current taxpayers.

During the 2011 Legislative Session, the Legislature took measures to improve the long-term sustainability and transparency of the State’s local government retirement plans. Among other changes, the Legislature amended the definition of pensionable compensation for all local plans, established sponsor contribution minimums, required

<sup>1</sup> Section 112.61, Florida Statutes.  
<sup>2</sup> Part VII, Chapter 112, Florida Statutes.

additional disclosures by local plans, required the Department to prepare one-page summary fact sheets for each plan, and mandated that the Department develop a plan to create a standard rating system for use in classifying the financial strength of all local government defined benefit retirement plans.<sup>3</sup>

Responsibility for monitoring the State’s local government retirement plans for compliance with the requirements of State law and Department rules was assigned to the Bureau of Local Retirement Systems (Bureau) within the Department, Division of Retirement (Division). Within the Bureau, staff in the Local Retirement Section (Section) were to review each of the State’s local government retirement plans for actuarially sound funding in compliance with the requirements of State law.<sup>4</sup> Section staff were also responsible for preparing the one-page summary fact sheets and annually submitting a report to the Legislature detailing Division activities, findings, and recommendations concerning all governmental retirement systems. In addition, pursuant to State law,<sup>5</sup> staff in the Bureau’s Municipal Police Officers and Firefighters’ Retirement Trust Funds Office (Office) were to provide oversight and monitoring of the State’s municipal and special district pension plans established for the benefit of police officers and firefighters.

According to the *Florida Local Government Retirement Systems Annual Report*, as of September 30, 2012, 492 plans had been established for the benefit of police officers, firefighters, and other local government employees.

**Finding No. 1: Review of Local Government Retirement Plans**

State law<sup>6</sup> provides that each retirement system or plan subject to the Florida Protection of Public Employee Retirement Benefits Act must have regularly scheduled actuarial reports prepared and certified by an enrolled actuary. State law<sup>7</sup> further specifies that the Department is to review and comment on each retirement system’s or plan’s actuarial valuations on at least a triennial basis. These reviews enable the Department to prepare and submit by January 1<sup>st</sup> of each year, the *Florida Local Government Retirement Systems Annual Report* to the President of the Senate and the Speaker of the House of Representatives, as required by State law.<sup>8</sup> Chart 1 summarizes the Department’s local government retirement plan activities.

**Chart 1  
Summary of Department Local Government Retirement Plan Activities**



- Upon receipt, a retirement system’s or plan’s actuarial valuation report is date-stamped and selected report information is entered into a Department database that catalogs local government retirement plan data.
- Every 3 years, a Division actuary is assigned to review the plan’s actuarial valuation. Once the actuary’s review is complete and all information and clarification requests have been satisfied, the plan is “State-accepted” and an acceptance letter is sent to the plan’s administrator.
- A Fact Sheet with a summary of each plan’s most current actuarial data, minimum funding requirements as a percentage of pay, and a 5-year history of funded ratios is prepared and made available for public viewing on the Department’s Web site.
- Annually, the Department prepares and submits to the President of the Senate and the Speaker of the House of Representatives a report which details Division activities, findings, and recommendations concerning all governmental retirement systems.

Source: Department records.

<sup>3</sup> Chapter 2011-216, Laws of Florida.  
<sup>4</sup> Sections 112.63 and 112.665(1)(b) and (d), Florida Statutes.  
<sup>5</sup> Sections 175.341(1) and 185.23(1), Florida Statutes.  
<sup>6</sup> Section 112.63(1), Florida Statutes.  
<sup>7</sup> Section 112.63(4), Florida Statutes.  
<sup>8</sup> Section 112.665(1)(d), Florida Statutes.

As part of our audit, we examined the Division's local government retirement plan review process and evaluated the *Local Retirement Section Procedures Manual (Manual)* utilized by Division staff during their review of each retirement plan's actuarial valuations. We also examined Division documentation for 40 (26 local government retirement plans and 14 firefighter and municipal police officer plans) of the 168 retirement plan actuarial valuations that were scheduled for Division review during the 2011-12 fiscal year. Our audit procedures found that:

- Contrary to the requirements of State law, the Division did not timely perform a triennial review for 1 of the 26 local government retirement plans. Although the Division completed a review of the plan on April 30, 2013, the review was completed 304 days subsequent to the required triennial review period that ended June 30, 2012.
- The *Manual* stated that when actuarial valuation reports were received by the Division, an analyst was to enter selected information (e.g., valuation date, market value of assets, financial and contribution data, actuarial data,<sup>9</sup> funding progress, actuarial value of assets, benefit data, and population data) from the reports into a Department database used by the Division to catalog local retirement plan data. The analyst was to then print an Actuarial Valuation Worksheet (Worksheet) and Benefits and Population Data Sheet (Data Sheet) from the database and add his or her initials and date to the sheets to confirm the data entry. Our examination of 40 Worksheets and 40 Data Sheets disclosed that 15 Worksheets and 15 Data Sheets were not initialed and dated by the analyst. Absent the analyst's initials and date, the Division could not demonstrate that the data was timely entered.
- Once printed, the Worksheet and Data Sheet were to be filed with the actuarial valuation report. The *Manual* required that a Division actuary review, on a sample basis, the accuracy of the analyst's data entry. However, the *Manual* did not specify how the review was to be documented. Our examination of 40 Worksheets and 40 Data Sheets, disclosed that those documents did not identify the data items that had been reviewed, who performed the review, or the date of the review. In response to our audit inquiry, Division staff stated that an actuary was to make a checkmark by the data items reviewed. However, Division staff further indicated that, if corrections to the Worksheets or Data Sheets were made based on an actuary's review, only the revised Worksheets and Data Sheets were maintained in the plan files and, as such, any documents with the actuary's initial checkmarks evidencing his or her review were not retained. Consequently, the Division could not demonstrate that the information entered into the database for the 40 plans selected for audit had been subjected to actuary review as required by Department policies and procedures. Division management indicated in response to our audit inquiry that, in the future, the original Worksheets and Data Sheets would be retained to evidence the actuary's review.
- To allow for a consistent review for compliance with the requirements of State law, the *Manual* required that Division actuaries use a standard work program when evaluating local government retirement plans. Division actuaries were to document their review by signing and dating the standard work program and including the signed program in the plan file. We noted that the work programs completed for the 40 plans selected for audit had not been signed or dated by the actuary who completed the review. As such, contrary to the *Manual* requirements, the work programs did not document the date the work programs were completed or who had completed them. In response to our audit inquiry, Division management stated that the actuary's signature on the State acceptance letter<sup>10</sup> served as support for his or her review. However, while the State acceptance letter is dated and provides the actuary's signature, we also noted that, due to the time required to provide any additional and clarifying information necessary to resolve the actuary's concerns, the actual State acceptance of a plan may not occur until months after the actuary's initial review and completion of the work program.

In addition to the standard work program to be completed by a Division actuary, Division staff were to complete a Police and Fire Pension Funds Annual Report Work Program when reviewing firefighter and

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<sup>9</sup> Actuarial data may include, but not be limited to, the funding method, plan valuation year, salary increase percentage assumption, actual salary increase percentage, interest earnings percentage assumption, actual interest earnings percentage, and retirement age assumptions.

<sup>10</sup> A State acceptance letter includes the results of the Department's review of a retirement plan's actuarial report for compliance with the requirements of Part VII, Chapter 112, Florida Statutes, and Department Rules, Chapter 60T-1, Florida Administrative Code.

municipal police officer annual financial reports. Our examination of Division documentation related to 14 firefighter and municipal police officer plans disclosed that, although Division staff completed a Police and Fire Pension Funds Annual Report Work Program for each plan, the Work Programs were not signed and dated by the Division staff who completed the review; therefore, the Division could not demonstrate who had completed the Work Programs or that the Programs had been timely completed.

Absent timely actuarial valuation report reviews, valuations that are incomplete, inaccurate, or not based on reasonable assumptions, may not be timely detected and appropriately adjusted. Additionally, when reviews are not timely performed, the Department's ability to provide assurances regarding the actuarially sound funding of local government retirement plans is reduced and the actuarial data reported to the Legislature in the *Florida Local Government Retirement Systems Annual Report* may not be accurate. Absent the maintenance of appropriate documentation, the Department cannot adequately demonstrate that actuarial valuation information for local government retirement plans was timely and accurately entered into the Department database and consistently subjected to review in accordance with State law and established Department procedures.

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**Recommendation:** We recommend that Department management ensure that local government retirement plan actuarial valuation report reviews are timely performed as required by State law and documented in accordance with established Department procedures.

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#### **Finding No. 2: Annual Report to Legislature**

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State law<sup>11</sup> requires that the Department issue by January 1<sup>st</sup> each year, a report to the President of the Senate and the Speaker of the House of Representatives which details Division activities, findings, and recommendations concerning all governmental retirement systems. State law also provides that the report may include legislation proposed to carry out the Division's recommendations. Pursuant to these reporting requirements, the Department prepares a *Florida Local Government Retirement Systems Annual Report (Annual Report)*.

Our audit included procedures to verify selected data for 40 of the 492 plans included in the 2012 *Annual Report*. We noted that, while the information presented in the *Annual Report* was consistent with selected data reported for the 40 plans, and the *Annual Report* included inventories of the types of retirement plans offered by municipalities, special districts, and school boards, the *Annual Report* did not include other information that may be useful to the Legislature. For example, the *Annual Report* did not include any conclusions made regarding each local government retirement plan's long-term sustainability or indicate whether the Department's review of the actuarial valuation report was complete and that the plan had been State-accepted, and if not, the reasons why not.

Absent conclusions regarding the information presented in the *Annual Report*, the report may be less useful to the Legislature when making decisions concerning local government retirement systems. In addition, absent information related to the reviews performed by the Department, the Legislature and other report users lack assurance that the Department's monitoring is sufficient and that that retirement plans are being managed, administered, operated, and funded in such a manner as to maximize the protection of public employee retirement benefits.

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**Recommendation:** We recommend that the Department enhance the *Annual Report* to be more informative as to the results of the Department's procedures. In addition, we recommend that the Department consult with the Legislature to determine how the *Annual Report* could be further enhanced to better meet the needs of the Legislature and other report users.

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<sup>11</sup> Section 112.665(1)(d), Florida Statutes.

**MyFloridaMarketPlace Contract**

Since 2003, MyFloridaMarketPlace (MFMP) has served as the State's Web-based eProcurement system. MFMP was designed to enable State agencies and other eligible users to procure commodities and contractual services online and electronically communicate information on purchasing activities to the State's accounting system, the Florida Accounting Information Resource Subsystem (FLAIR). MFMP has been maintained and operated by Accenture, LLP, (Accenture) under contract with the Department since the system's inception. According to Department records, as of November 2012, approximately 33 State agencies utilized MFMP and there were approximately 6,000 active users (on average) each month and more than 86,000 registered vendors. Table 1 provides a chronology of the Department's procurement activities related to MFMP contractual services.

**Table 1**  
**MFMP Procurement Activity Chronology**  
**March 2001 Through February 2013**

Date	Activity
<b>March 2001</b>	The Department issued Invitation to Negotiate (ITN) No. DMS 00/01-015 soliciting a Web-based eProcurement system that would enable the State "and other government entities to efficiently purchase, receive, and pay for goods and services from the desktop."
<b>April 2001</b>	Seventeen responses for ITN No. DMS 00/01-015 were received. The Department invited all 17 respondents to make oral presentations.
<b>May 2001</b>	Sixteen vendors each provided a 6+ hour presentation summarizing their responses and answering questions. The information exchanged during these sessions was used by the proposal evaluation team as part of the evaluation and scoring process. The Department announced the ranking of vendor proposals and its intent to negotiate with the two highest-ranked vendors, Accenture and KPMG.
<b>October 2002</b>	After nearly a year and a half of negotiations, the Department signed the Web-based eProcurement system contract with Accenture (contract No. 252-099-03-1). Costing \$92 million and covering a period of 61 months, the project, named MyFloridaMarketPlace (MFMP) was launched.
<b>October 2005</b>	Modification No. 4 to contract No. 252-099-03-1 renewed the MFMP contract for 3 years (36 months) commencing on November 8, 2007, and concluding on November 7, 2010.
<b>July 2009</b>	Modification No. 6 to contract No. 252-099-03-1 renewed the MFMP contract for an additional 25 months commencing on November 8, 2010, and concluding on December 8, 2012.
<b>May 2012</b>	The Department released ITN No. DMS-11/12-030 to solicit proposals from vendors for a 4-year contract with up to 4 additional renewal years available to maintain MFMP and provide operational support for MFMP services including buyer and help desk management.
<b>July 2012</b>	Responses for ITN No. DMS-11/12-030 were received from Accenture and CGI Technologies and Solutions.
<b>November 2012</b>	Modification No. 10 to contract No. 252-099-03-1 extended the MFMP contract for a period of 6 months commencing on December 9, 2012, and concluding on June 8, 2013.
<b>February 2013</b>	On February 1, 2013, the Department entered into a 4-year, \$43.3 million contract with Accenture (contract No. DMS-11/12-030) for the continued operation of MFMP.

Source: Department documents.

As shown in Table 1, the Department's initial contract (No. 252-099-03-1) with Accenture for the operation of MFMP was extended until June 8, 2013, with a clause that the contract could be terminated if a new contract was entered into. On February 1, 2013, the Department entered into a \$43.3 million contract with Accenture for the continued operation of MFMP.

**Finding No. 3: Present-Value Cost Evaluations**

State law<sup>12</sup> requires that the cost of bids, proposals, or replies for State contracts that include provisions for unequal payment streams or unequal time payment periods be evaluated using a present-value methodology.<sup>13</sup> Use of a present-value methodology provides for consideration of the time-value of money when evaluating the costs of alternative bids, proposals, or replies.

In May 2012, the Department released ITN No. DMS-11/12-030 (ITN) to solicit proposals from vendors to establish a 4-year contract, with up to an additional 4 renewal years available, for the continued operation of MFMP. In response, the Department received timely replies, including cost proposals, from two vendors: Accenture and CGI Technologies and Solutions (CGI).

Our examination of Department documentation supporting the evaluation of the vendor responses to the MFMP ITN disclosed that the Department did not use a present-value methodology to evaluate each respondent’s cost proposal. In response to our audit inquiry, Department management stated that use of a present-value methodology was not applicable because the MFMP contract was procured using a fixed fee provision rather than provisions for unequal payment streams or unequal time periods. Department management noted that the ITN required respondents to complete and submit a cost proposal form for the contract’s initial term and renewal years and that the cost proposals were to be submitted as a fixed price per year for the operation of each service area, the contingency hours, and a fixed price for transition, if not waived or included in the contract price. As shown in Table 2, while the cost proposals submitted by the vendors provided for a fixed price per year, the proposed costs for each contract and renewal year varied.

**Table 2  
MFMP ITN Respondent Cost Proposals**

Respondent/ Service Area	Costs During the Initial 4-Year Contract Period					Costs During the 4-Year Renewal Period				
	Year 1	Year 2	Year 3	Year 4	Totals	Year 1	Year 2	Year 3	Year 4	Totals
<b>Accenture</b>										
Operations	\$ 9,417,300	\$ 9,414,800	\$ 9,414,800	\$ 9,417,300	\$37,664,200	\$ 9,888,165	\$10,382,573	\$10,901,702	\$11,446,787	\$42,619,227
Infrastructure Management and Support	1,708,300	1,092,300	1,802,300	1,092,300	5,695,200	1,146,915	1,204,261	1,964,474	1,327,697	5,643,347
<b>Totals</b>	<b>\$11,125,600</b>	<b>\$10,507,100</b>	<b>\$11,217,100</b>	<b>\$10,509,600</b>	<b>\$43,359,400</b>	<b>\$11,035,080</b>	<b>\$11,586,834</b>	<b>\$12,866,176</b>	<b>\$12,774,484</b>	<b>\$48,262,574</b>
<b>CGI</b>										
Operations	\$ 7,745,358	\$ 9,768,376	\$ 9,791,453	\$ 9,810,949	\$37,116,136	\$ 9,319,940	\$ 9,054,826	\$ 8,903,617	\$ 8,735,183	\$36,013,567
Infrastructure Management and Support	1,472,100	1,472,100	1,472,100	1,472,100	5,888,400	1,803,100	1,803,100	1,803,100	1,803,100	7,212,400
Transition Costs	2,303,700	-	-	-	2,303,700	-	-	-	-	-
<b>Totals</b>	<b>\$11,521,158</b>	<b>\$11,240,476</b>	<b>\$11,263,553</b>	<b>\$11,283,049</b>	<b>\$45,308,236</b>	<b>\$11,123,040</b>	<b>\$10,857,926</b>	<b>\$10,706,717</b>	<b>\$10,538,283</b>	<b>\$43,225,967</b>

Source: Department records.

As the cost proposals showed varying costs for each year and contract No. DMS-11/12-030 provides for compensation that varies for each contract year, resulting in unequal payment streams over the contract term, it

<sup>12</sup> Section 287.0572(1), Florida Statutes.

<sup>13</sup> Each agency is to perform the evaluation using, as the present-value discount rate, the rate for United States Treasury notes and bonds published in the Interest Rates: Money and Capital Markets section of the most recent copy of the *Federal Reserve Bulletin* published at the time of issuance of the request for proposals, the invitation to negotiate, or the invitation to bid.

appears that the Department should have utilized the present-value methodology prescribed by law when evaluating the cost proposals.

Absent the use of a present-value methodology when evaluating the costs proposed by vendors for State contracts with unequal payment streams, the Department cannot demonstrate that the time-value of money was considered or that the cost proposals were evaluated in accordance with State law.

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**Recommendation:** We recommend that Department management ensure that the cost of bids, proposals, or replies for future contracts that include provisions for unequal payment streams over the term of the contract are evaluated in accordance with the requirements of State law.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2013 through May 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the Department's monitoring of local government retirement plans and procurement of the MFMP contract. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit

methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing the Department's operations.
- Interviewed Department personnel and reviewed Department policies and procedures to obtain an understanding of Department internal controls related to the monitoring of local government retirement plans and procurement of the MFMP contract.
- Tested key processes related to the monitoring of local government retirement plans and procurement of the MFMP contract to determine whether Department controls were appropriately designed, implemented, and operating effectively.
- Evaluated whether the Department's standard work programs used to review local government retirement plan actuarial evaluation reports included the provisions specified in State law and Department administrative rules.
- Examined documentation for 40 local government retirement plan actuarial valuation report reviews conducted by the Department during the period July 2011 through February 2013 to evaluate Department compliance with the requirements of State law and to determine whether the reviews were performed and documented in accordance with established Department procedures.
- Tested information related to 40 local government retirement plan actuarial valuation reports that was recorded in the Department's database for accuracy and completeness.
- Examined documentation for 14 local firefighter and municipal police officer plans and annual financial reports reviews conducted by the Department during the period July 2011 through February 2013 to evaluate Department compliance with the requirements of State law and established Department procedures.
- Tested 40 Actuarial Summary Fact Sheets prepared by the Department during the period July 2011 through February 2013 to determine whether the information presented was accurate and complete, prepared using the most recent available data from the local government retirement plan actuarial valuation reports, and reviewed and approved prior to being made available to other users.
- Examined the 2012 *Florida Local Government Retirement Systems Annual Report* to determine whether the report was accurate, prepared using the most recent available data from the local government retirement plan actuarial valuation reports, and reviewed and approved prior to being timely submitted to the Legislature.
- Evaluated the content of the 2012 *Florida Local Government Retirement Systems Annual Report* to determine whether the provided information met the needs of the Legislature and other users and was consistent with the reporting requirements set forth in State law.
- Examined the 2011 and 2012 *Special District Information Program Annual Reports* prepared by the Department to determine whether the reports were accurate, prepared using the most recent available data from the local

government pension plan actuarial reports and in accordance with the requirements of State law,<sup>14</sup> and reviewed and approved prior to submission to the Department of Economic Opportunity.

- Inquired as to whether the Department had developed and submitted a plan to create a standard rating system for use in classifying the financial strength of all local government pension plans to the Governor, Chief Financial Officer, President of the Senate, and Speaker of the House of Representatives, as required by State law.<sup>15</sup>
- Examined documentation related to 40 distributions of insurance tax premiums to firefighter and municipal police officer pension plans made during August and September 2012 to determine whether the distributions were made after the plans had a State-accepted actuarial evaluation report and were appropriately reviewed and approved by the Department.
- Reviewed Department procurement documentation for the MFMP contract executed on February 1, 2013, to determine whether the contract was procured in compliance with applicable laws, administrative rules, and Department policies and procedures.
- Reviewed the MFMP contract documentation to determine whether the contract included all provisions required by State law.
- Reviewed Department monitoring documentation to determine whether the Department had established a reasonable schedule for monitoring the MFMP contract.
- Observed, documented, and evaluated the effectiveness of selected administrative processes and procedures related to revenues and cash receipts, travel expenditures, wireless telephones and other devices, cash management, and the assignment and use of motor vehicles.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions.

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<sup>14</sup> Section 112.665(1)(f), Florida Statutes.

<sup>15</sup> Chapter 2011-216, Laws of Florida.

**AUTHORITY**

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSE**

In a response letter dated October 21, 2013, the Secretary of the Department provided responses to our audit findings and recommendations. The Secretary's response is included as **EXHIBIT A**.

EXHIBIT A  
MANAGEMENT'S RESPONSE



4050 Esplanade Way  
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Rick Scott, Governor

Craig J. Nichols, Agency Secretary

October 21, 2013

Mr. David W. Martin, CPA  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to paragraph 11.45(4)(d), Florida Statutes, this is our response to your report, Department of Management Services, *Monitoring of Local Government Retirement Plans and the MyFloridaMarketPlace Contract and Prior Audit Follow-Up*. Our response corresponds with the order of the findings and recommendations contained in the draft report.

If further information is needed concerning our response, please contact Walter Sachs, Inspector General, at 488-5285.

Sincerely,

Craig J. Nichols  
Agency Secretary

Attachment

cc: Stacy Arias, Deputy Secretary, Business Operations  
Darren Brooks, Deputy Secretary, Workforce Operations  
Erin Rock, Chief of Staff  
Debra Forbess, Director, Administration  
Tom Berger, Director, Real Estate Development and Management  
Marlene Williams, Director, Legislative Affairs  
Ben Wolf, Director, Communications  
Joe Wright, Chief Information Officer  
Mitchell Clark, Chief, Bureau of Financial Management Services

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

Mr. David W. Martin, CPA  
October 21, 2013  
Page 1

Department of Management Services' Response  
To the Auditor General's Operational Audit of the Department of Management Services  
Monitoring of Local Government Retirement  
Plans and the MyFloridaMarketPlace Contract

**Retirement Plans**

**Finding No. 1: Review of Local Government Retirement Plans**

The Department could not always demonstrate that statutorily mandated local government retirement plan reviews were performed in accordance with established procedures and State law.

**Recommendation:**

We recommend that Department management ensure that local government retirement plan actuarial valuation report reviews are timely performed as required by State law and documented in accordance with established Department procedures.

**Response:**

Department concurs that one plan from the sample of 40 was reviewed out of its triennial schedule. In fall 2009, the Access database that houses the local retirement actuarial data, and tracks the review work flow, was substantially re-written and upgraded. These improvements have provided management with better tools to monitor the progress of local government plan reviews and have significantly mitigated the risk of untimely reviews. This plan's last review was conducted prior to the implementation of the database improvements and was not entered in the database. Since implementation, all reviews are tracked in Access for timeliness. Actuarial review procedures that would result in missing or redundant documentation have been revised in the manual. Police and fire review procedures are deemed adequate.

**Finding No. 2: Annual Report to Legislature**

The information presented in the Department's Florida Local Government Retirement Systems Annual Report could be enhanced to better meet the needs of the Legislature and other decision makers.

**Recommendation:**

We recommend that the Department enhance the Annual Report to be more informative as to the results of the Department's procedures. In addition, we recommend that the Department consult with the Legislature to determine how the Annual Report could be further enhanced to better meet the needs of the Legislature and other report users.

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

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**Response:**

Department partially concurs. The *Annual Report* provides the summary of Division activities, findings, and recommendations, as required in section 112.665(1)(d), Florida Statutes. Recent legislation has modified the reporting requirements of the Department with respect to the *Annual Report* and the newly required summary actuarial fact sheets for each plan. The legislature frequently offers guidance to the Department on the content of the *Annual Report*, so it does not appear necessary to consult specifically on the subject. However, the Department always seeks to improve the value provided in its reports and will consider amending the report to include identifying the plans that are "not state accepted".

**MyFloridaMarketPlace Contract**

**Finding No. 3: Present-Value Cost Evaluations**

Contrary to State law, the Department did not use a present-value methodology to evaluate the vendor cost proposals for the MFMP procurement.

**Recommendation:**

We recommend that Department management ensure that the cost of bids, proposals, or replies for future contracts that include provisions for unequal payment streams over the term of the contract are evaluated in accordance with the requirements of State law.

**Response:**

The Department agrees with the recommendation that bids, proposals and replies be evaluated in accordance with the requirements of State law.

The MyFloridaMarketPlace procurement, which resulted in contract no. DMS 11/12-030, was awarded to the lowest cost proposal no matter what type of comparative analysis was performed.