

**DEPARTMENT OF ECONOMIC
OPPORTUNITY**

**SELECTED ADMINISTRATIVE PROCESSES
AND PRIOR AUDIT FOLLOW-UP**

Operational Audit



EXECUTIVE DIRECTOR OF THE DEPARTMENT OF ECONOMIC OPPORTUNITY

The Department of Economic Opportunity is created by Section 20.60, Florida Statutes. Effective July 1, 2011, and allowing for a 3-month transition period ending October 1, 2011, Chapter 2011-142, Laws of Florida, transferred to the newly created Department of Economic Opportunity selected functions from the former Department of Community Affairs; the Executive Office of the Governor's Office of Tourism, Trade, and Economic Development; and the programs and functions of the Agency for Workforce Innovation (with the exception of the Office of Early Learning, which transferred to the Department of Education). Prior to and during the 3-month transition period, Cynthia Lorenzo served as Director of the Agency for Workforce Innovation.

The head of the Department of Economic Opportunity is the Executive Director who is appointed by the Governor subject to confirmation by the Senate. The following individuals served as Executive Director during the period of our audit:

Jesse Panuccio	From January 8, 2013
Darrick McGhee, Interim	From December 17, 2012, through January 7, 2013
Hunting Deutsch	From April 16, 2012, through December 16, 2012
Cynthia Lorenzo, Interim	From February 1, 2012, through April 15, 2012
Douglas Darling	From October 1, 2011, through January 31, 2012

The audit team leaders were Aileen Peterson, CPA, and Lynley B. Trent, CPA, and the audit was supervised by Janet K. Bentley, CPA. Please address inquiries regarding this report to Christi Alexander, CPA, Audit Manager, by e-mail at 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; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF ECONOMIC OPPORTUNITY

Selected Administrative Processes and Prior Audit Follow-Up

SUMMARY

This operational audit of the Department of Economic Opportunity (Department) focused on selected administrative processes and included a follow-up on the audit findings noted in our report No. 2012-070. Our audit disclosed the following:

ADMINISTRATIVE PROCESSES

Finding No. 1: Improvements are needed in the Department's administration of its responsibilities under the Florida Single Audit Act.

Finding No. 2: Department controls should be enhanced to ensure compliance with statutorily required social security number collection activity reviews and notifications to individuals specifying the need for and use of social security numbers.

Finding No. 3: Department policies and procedures did not discourage personal use of State-owned smartphones and cellular telephones and should be enhanced to address text, data, picture, and video usage and to require that users attend security awareness training.

Finding No. 4: Department tangible personal property records did not always include accurate information regarding the condition of property items. Additionally, Department policies and procedures did not always reflect current operating practices and State requirements, and the Department did not always ensure that missing property items were timely reported and investigated.

Finding No. 5: The Department did not maintain documentation supporting the accuracy of the insured values of its buildings and their contents.

Finding No. 6: Department staff did not always conduct accounting system user access reviews in accordance with Department policies and procedures.

LABOR MARKET STATISTICS CENTER

Finding No. 7: As similarly noted in our report No. 2012-070, the Department did not ensure that the effectiveness of information technology security controls relevant to the Labor Market Statistics survey-related systems and processes were tested on a regular basis.

BACKGROUND

Effective July 1, 2011, and allowing for a 3-month transition period ending October 1, 2011, Chapter 2011-142, Laws of Florida, created the Department of Economic Opportunity (Department) by transferring functions of the former Agency for Workforce Innovation (AWI), Department of Community Affairs (DCA), and Office of Tourism, Trade, and Economic Development (OTTED) to the Department. **EXHIBIT A** of this report shows the organizational structure of the Department as of February 2013.

Pursuant to State law,¹ the purpose of the Department is to assist the Governor in working with the Legislature, State agencies, business leaders, and economic development professionals to formulate and implement coherent and consistent policies and strategies designed to promote economic opportunities for all Floridians. To carry out the Department's mission, the Legislature established five Department divisions:

- Strategic Business Development,

¹ Section 20.60(4), Florida Statutes.

- Community Development,
- Workforce Services,
- Finance and Administration, and
- Information Technology.

For the 2012-13 fiscal year, the Department was authorized 1,625 positions and received appropriations totaling approximately \$907 million.²

FINDINGS AND RECOMMENDATIONS

Selected Administrative Processes

Inherent in the creation of any new State agency are challenges requiring the establishment of certain management processes to ensure that the resources available to the agency are properly identified, acquired, safeguarded, and utilized. These challenges and the related risks are magnified by the consolidation of certain functions and the transfer of associated resources from three different agencies into the new Department of Economic Opportunity (Department). It is Department management's responsibility to develop and implement policies and procedures designed to effectively manage and minimize risks while ensuring that Department programs, activities, and functions are not disrupted.

Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. Each function within an organization needs complete, up-to-date, well-documented policies and procedures to describe the scope of the function, its activities, and the interrelationships with other functions of the organization. Policies establish the organization's direction, while procedures indicate how the policies are to be implemented and followed. Policies and procedures should be periodically reevaluated and adjusted as necessary to accommodate changing conditions.

Our audit included procedures to evaluate, for selected administrative processes, the design and implementation of Department controls, as well as the policies and procedures established by Department management and implemented by Department staff. The results of our audit procedures disclosed control deficiencies related to certain administrative processes assigned or transferred to the Department.

Finding No. 1: Florida Single Audit Act

State Financial Assistance (SFA) is financial assistance provided from State resources to non-State entities to carry out a State project and is to be administered in accordance with the requirements of the Florida Single Audit Act (FSAA),³ Department of Financial Services (DFS) rules,⁴ and Rules of the Auditor General.⁵ The purpose of the FSAA, among other things, is to establish uniform State audit requirements for non-State entities receiving SFA; promote sound financial management of SFA; and ensure State agency monitoring, use, and follow-up on audits of SFA.

The Catalog of State Financial Assistance (CSFA) lists State projects, by assigned CSFA numbers and assists users (e.g., SFA recipients and auditors) in obtaining general information on State projects (e.g., State project title and legal authorization). The State Projects Compliance Supplement contains information for auditors such as the project's

² Chapter 2012-118, Laws of Florida, *General Appropriations Act*.

³ Section 215.97, Florida Statutes.

⁴ DFS Rules, Chapter 69I-5, Florida Administrative Code.

⁵ Chapters 10.550 and 10.650, Rules of the Auditor General.

objectives, procedures, and compliance requirements relevant to an audit, as well as audit objectives and suggested audit procedures for assessing compliance with SFA requirements.

DFS rules⁶ require that, when a State agency provides SFA, the State agency complete a *Florida Single Audit Act Checklist for Non-State Organizations – Recipient/Subrecipient vs. Vendor Determination (Checklist)* to determine the applicability of the FSAA to non-State organizations. The *Checklist* assists State agencies in determining if the non-State organization is a vendor, recipient or subrecipient, or an exempt organization, and the *Checklist* is to be retained in each State agency's records.

DFS rules also require that, whenever a non-State organization is determined to be a recipient or subrecipient of SFA, standard audit language be included in the document that establishes the State's, recipient's, or subrecipient's relationship with the non-State entity. The FSAA also requires that a State awarding agency provide SFA recipients the information necessary to comply with the FSAA. This is to be accomplished through an award agreement that includes language requiring that each recipient that expends \$500,000 or more of SFA in any fiscal year obtain a State single audit or a project-specific audit conducted by an independent auditor. In addition, the FSAA requires the SFA recipient to provide a copy of a financial reporting package (FRP) to the State awarding agency. Among other things, the FRP is to address the recipient's compliance with State project requirements, any deficiencies in internal controls, and the amount of SFA expended by the recipient in conducting the State project.

The FSAA specifies that State awarding agencies are to review each recipient's FRP to determine whether timely and appropriate corrective action had been taken with respect to any audit findings and recommendations. An effective FRP review process is essential to ensure that the FRPs are timely received and appropriately reviewed, necessary corrective actions are taken, and reliable information is available for future funding and policy decisions. Such a process should be established by State agency management and its requirements disseminated through written policies and procedures and other guidelines. The process should include, for example, checklists to facilitate the review of the FRPs; a method to track the FRPs that are due, received, and reviewed; and specified agency actions for obtaining any FRPs not received and for following up on instances of recipient noncompliance or other noted deficiencies.

According to Department records, the Department awarded \$166 million in SFA to recipients during the period October 1, 2011, through February 28, 2013. Our review of Department processes for making awards to and obtaining and reviewing FRPs from SFA recipients disclosed that the Department had not established or implemented effective processes or written procedures for awarding the SFA or for tracking the receipt of and reviewing the FRPs. In addition, we examined documentation related to ten SFA awards totaling \$13,082,123 and made by the Department during the period October 1, 2011, through February 28, 2013, and found that:

- Contrary to DFS rules, the Department had not completed or retained *Checklists* for four of the ten SFA recipients.
- Language in the SFA award agreements varied across Department program areas and in some instances the award agreements did not include all the information necessary for the recipient to comply with the FSAA requirements. As a result, SFA recipients and post auditors may not have been made fully aware of the applicable FSAA requirements. Specifically:
 - For three of the ten awards, the Department did not notify the recipients of the audit and accountability requirements for State projects as stated in the FSAA and applicable DFS and Auditor General rules.
 - For eight of the ten awards, the Department did not notify the recipients of all applicable State project information contained in the CSFA.

⁶ DFS Rule 69I-5.006, Florida Administrative Code.

- For three of the ten awards, the Department did not notify the recipients of all applicable project compliance requirements contained in the State Projects Compliance Supplement.
- For five of the ten awards, the Department did not notify the recipients that, as a condition of receiving SFA, the Department, the DFS, and the Auditor General were allowed to review the working papers of the recipient's independent auditor.
- For three of the ten awards, the Department did not notify the recipients they were required to provide an FRP to the Department.

We also requested evidence of Department receipt and review of ten recipients' FRPs that were due to the Department during the period October 1, 2011, through February 28, 2013, and discovered that:

- For five of the ten recipients, the Department was unable to provide evidence that an FRP had been received by the Department for their review.

Absent established policies and procedures that promote compliance with the FSAA and provide for proper State project oversight, the Department has limited assurance that SFA will be properly administered by recipients and subject to the accountability required by the FSAA. In addition, absent documentation of the SFA recipient determination, proper recipient notification of the FSAA requirements, and evidence of the timely receipt and review of required FRPs, the Department cannot demonstrate compliance with the FSAA or applicable State rules. Further, without the timely receipt and appropriate review of the required FRPs, any recipient noncompliance or control deficiencies noted on audit may not be timely followed up on and resolved.

Recommendation: We recommend that Department management establish and implement comprehensive policies and procedures to promote compliance with the FSAA and to provide for effective oversight of State projects and SFA. Such policies and procedures should address documentation requirements and include a process for ensuring that required FRPs are timely received and properly reviewed and that any instances of recipient noncompliance or other noted deficiencies are timely followed up on and resolved.

Finding No. 2: Collection of Social Security Numbers

The Legislature has acknowledged in State law⁷ that a person's social security number (SSN) was never intended to be used for business purposes. However, over time the SSN has been used extensively for identity verification and other legitimate consensual purposes.

Recognizing that an SSN can be used to perpetrate fraud against an individual and acquire sensitive personal, financial, medical, and familial information, the Legislature specified⁸ that State agencies may not collect an individual's SSN unless the agency is authorized by law to do so or it is imperative for the performance of the agency's duties and responsibilities as prescribed by law. Additionally, State agencies are required to provide each individual whose SSN is collected written notification regarding the purpose for collecting the number. The SSNs collected may not be used by the agency for any purpose other than the purpose provided in the written notification. State law further provides that SSNs held by an agency are confidential and exempt from public inspection and requires that each agency review its SSN collection activities to ensure the agency's compliance with the requirements of State law and immediately discontinue SSN collection upon discovery of noncompliance.

⁷ Section 119.071(5), Florida Statutes.

⁸ Section 119.071(5)(a)2.a., Florida Statutes.

According to Department management, during the period July 1, 2011, through February 28, 2013, the Department utilized the policies and procedures established by the AWI⁹ to administer the Department's collection and use of SSNs. Our examination of these policies and procedures disclosed that the statutory provision requiring the Department to review its collection of SSNs was not addressed and, consequently, the Department had not performed such a review. We also reviewed Department forms used to collect individuals' SSNs and identified seven forms for which the Department did not provide individuals with written notification of the purpose for collecting the SSNs. In response to our audit inquiry, Department management stated that they were not aware of the statutory requirement and that, for one form, the collection of the SSNs was determined not necessary.

Recommendation: We recommend that Department management ensure individuals are properly notified of the Department's purpose for collecting their SSN. In addition, we recommend that Department management enhance policies and procedures to ensure that a review of the Department's SSN collection activities is performed as required by State law.

Finding No. 3: Smartphone and Cellular Telephone Usage

To assist in the performance of their official duties, the Department provided smartphones¹⁰ and cellular telephones to certain Department employees. According to Department records, as of February 13, 2013, the Department had 125 smartphones and 31 cellular telephones available for staff use.

According to Department management, during the period July 1, 2011, through February 28, 2013, the Department utilized the policies and procedures established by the AWI¹¹ to manage the purchase, lease, and utilization of smartphones and cellular telephones. The policies and procedures stated that only those charges which directly related to an employee's official duties were to be paid from State funds and that State-owned smartphones and cellular telephones were only to be used for conducting official State business when a conventional State telephone or other free-use telephone was not readily available. If personal calls were on the telephone billing, the employee was required to reimburse the State for the calls and pay a \$3 processing fee.

As part of our audit, we evaluated the policies and procedures utilized by the Department, performed analytical procedures related to smartphone and cellular telephone usage, and examined smartphone and cellular telephone reimbursement documentation for selected employees. Our audit tests disclosed that:

- Contrary to DFS guidance,¹² the policies and procedures did not discourage the personal use of Department smartphones and cellular telephones. During the period July 2011 through February 2013, the smartphone and cellular telephone invoice and reimbursement records for the six employees who most frequently reimbursed the Department for personal calls included 70 invoices with personal use reimbursements totaling \$1,950, an amount equal to approximately 41 percent of the total \$4,781 invoiced amount.
- The policies and procedures did not provide guidance regarding text messaging, data, picture, and video usage. Our review of the monthly usage and charges for 70 invoices with personal use reimbursements disclosed significant text messaging, data, picture, and video usage.
- The Department's process for identifying personal calls on smartphone and cellular telephone invoices and reimbursement records did not allow for a proper postaudit. Department employees were to review the invoices and identify personal calls by highlighting the calls on the invoice. Once the reimbursement for

⁹ Agency for Workforce Innovation *Confidentiality of Records and Public Records Requests and Subpoenas* policy and procedure, dated November 23, 2005.

¹⁰ A smartphone is a cellular telephone with additional software functions, such as e-mail, data storage, and an Internet browser.

¹¹ Agency for Workforce Innovation *Communications Equipment* policy and procedure, dated May 1, 2007.

¹² DFS *Reference Guide for State Expenditures*.

personal use was made by the employee, the invoice was imaged and stored electronically. However, during our review of smartphone and cellular telephone invoice and reimbursement records, we noted that no highlighting was visible on the imaged invoices; therefore, the personal calls were not identifiable and the Department could not demonstrate the accuracy of the amounts reimbursed by employees.

Additionally, we noted that security awareness training had not been provided to the Department's smartphone and cellular telephone users. Such training is important as the devices may be used to send, receive, and store sensitive or confidential Department data. Subsequent to our audit inquiry, Department management indicated that a training presentation had been created and, once approved, would be provided to all Department employees prior to being assigned a smartphone or cellular telephone.

Policies and procedures that discourage the personal use of State-owned smartphones and cellular telephones; address messaging, data, picture, and video usage; and provide for a process whereby employee reimbursements for personal usage can be verified, help to provide additional assurance that smartphones and cellular telephones are being used for official business purposes and that State funds are not used to pay for any personal use charges.

Recommendation: We recommend that Department management enhance the policies and procedures to discourage the personal use of smartphones and cellular telephones and to provide guidance on messaging, data, picture, and video usage. We also recommend that the Department provide security awareness training to all employees assigned a smartphone or cellular telephone and that documentation of personal usage and the corresponding reimbursements clearly demonstrate the accuracy of the reimbursements.

Finding No. 4: Tangible Personal Property Controls

DFS rules¹³ require that all tangible personal property with a value or cost of \$1,000 or more and having a projected useful life of one year or more be recorded in the Florida Accounting Information Resource Subsystem (FLAIR) as property for inventory purposes. DFS rules¹⁴ also specify that State agency custodians are to maintain adequate records of the property in their custody. The rules require that documentation supporting the property records for each property item contain, among other things, the item's description; class code; cost or value at acquisition; last physical inventory date; physical location; and condition.

According to Department management, during the period July 1, 2011, through February 28, 2013, the Department utilized the policies and procedures established by the AWI¹⁵ for the acquisition, control, and disposition of all tangible personal property. These policies and procedures required that, at the conclusion of each physical inventory, General Services staff notify the Inspector General's Office, and the Director of Agency Support Services of all missing property. Missing items were to be reported on a *Notification of Missing Property Form (Form)*.

Our review of the policies and procedures and Department tangible personal property records disclosed areas where improvements were needed to better ensure the accurate recording and safeguarding of Department property. Specifically:

- Department property records did not always appear to be accurate. For example, as of January 31, 2013, there were 3,338 property items recorded in Department property records and the condition for 3,076 of the items was shown as "new" even though 1,296 (42 percent) items had been acquired during the period January 1996 through December 2008. The acquisition costs for these 1,296 items totaled \$3,259,920.

¹³ DFS Rule 69I-72.002, Florida Administrative Code.

¹⁴ DFS Rule, 69I-72.003(1), Florida Administrative Code.

¹⁵ Agency for Workforce Innovation *Property Management* policies and procedures, dated March 9, 2009.

- The policies and procedures used by the Department did not always reflect current operating practices and the provisions of applicable State administrative rules. For example, as the policies and procedures established by the AWI were still being used, there were references to obsolete AWI position titles, such as the Director of Agency Support Services. The policies and procedures also referenced Rules of the Auditor General that were repealed effective July 1, 2006.
- Contrary to the policies and procedures, the Department's General Services staff did not timely notify the appropriate parties when 8 items (four laptop computers and four desktop computers), with acquisition costs totaling \$12,645, were identified as missing during the Department's 2011-12 fiscal year physical inventory. In response to our audit inquiry, Department management indicated that the oversight may have resulted from the transition of property items from the AWI, the DCA, and the OTTED and that new staff had performed the physical inventory. Subsequent to our audit inquiry, Department management provided a detailed property list of the 8 missing items to the Department's Inspector General and Chief Financial Officer, but did not provide the *Forms* which indicated whether or not the 8 missing items contained confidential information. We noted that while the *Form* for 4 of the 8 missing items showed that the items did not contain confidential information, the *Forms* for the other 4 items indicated that it was "unknown" as to whether or not the item contained confidential information. Although the policies and procedures did not require that the *Forms* be submitted to the Department's Inspector General and Chief Financial Officer, the information included on the *Forms* could aid in the investigation of missing property.

Absent effective tangible personal property controls, Department management lacks assurance regarding the accuracy of the information needed to maintain accountability over Department property, as well as the extent of Department compliance with applicable State laws and DFS rules. Additionally, absent timely and appropriate notification of missing items identified during the physical inventory, the Department cannot ensure that an investigation will be timely conducted and that timely and appropriate corrective actions will be taken. For those property items with data storage capabilities, a timely investigation is especially important so that Department management can determine the impact of any potential loss or exposure of confidential information.

Recommendation: We recommend that Department management enhance Department tangible personal property policies and procedures to accurately reflect State requirements and Department processes and to better ensure the accuracy of Department FLAIR property records. Additionally, we recommend that Department management ensure that applicable parties are timely notified of property items identified as missing during the physical inventory process so that a timely investigation can be conducted and appropriate corrective actions can be taken.

Finding No. 5: Property Insurance

State law¹⁶ provides that the State Risk Management Trust Fund, administered by the DFS, shall insure all State-owned buildings and the contents thereof or any other building leased or rented by the State. State agencies are responsible for making sure that all buildings and contents are reported to the DFS, Division of Risk Management, with accurate insured values. Such values are utilized by the Division of Risk Management to determine the annual premiums assessed to State agencies. To indemnify the Department for potential losses, Department staff reported the insured values for the Department's buildings and their contents and obtained annual insurance certificates from the Division of Risk Management.

Our examination of the Department's insurance certificates for the 2011-12 and 2012-13 fiscal years disclosed that the Department did not maintain documentation supporting the accuracy of the insured values reported to the Division of Risk Management and shown on the insurance certificates. In response to our audit inquiry, Department management stated that FLAIR records were always used to develop the building and content values used in the

¹⁶ Section 284.01, Florida Statutes.

determination of insured values. Specifically, the building values were taken directly from FLAIR and the content values were calculated by taking the total acquisition cost of inventoried property items (by location) and adding a standard allocation for non-inventoried property based on the number of employees at the specific location. However, the Department had not maintained the historical FLAIR and allocation records used to determine the insured values for the 2011-12 and 2012-13 fiscal years.

Absent documentation to support the determination of insured values, the Department is unable to demonstrate that the amount of insurance coverage obtained is accurate and an appropriate amount upon which to base the Department's premium assessments.

Recommendation: We recommend that Department management ensure that documentation supporting the determination of insured values be retained to demonstrate the accuracy of the amounts reported to the Division of Risk Management and used to determine the Department's premium assessments.

Finding No. 6: FLAIR User Access Reviews

Effective information technology (IT) security administration policies and procedures provide for the periodic review of user access privileges to reduce the risk of unauthorized system access. Department policies and procedures required the performance of bi-monthly FLAIR user access reviews that included confirming with applicable Department management the continued appropriateness of employees' FLAIR access privileges.

Our audit procedures disclosed that Department staff had not performed bi-monthly FLAIR user access reviews. Specifically, we examined Department FLAIR user access review documentation and found that only five reviews had been performed during the 17-month period of October 2011 through February 2013. Our examination also disclosed that Department manager responses regarding the continued appropriateness of employee access privileges were not available for 11 of the 30 confirmation requests included as part of the five reviews. Additionally, although 10 of the 19 responses provided by Department managers requested that employees' FLAIR access privileges be removed, we noted that Department staff had not taken appropriate action for 4 of the 10 responses. In response to our audit inquiry, Department staff indicated that an increase in workload due to the transition of functions and personnel to the Department contributed to the reviews not being completed in accordance with established policies and procedures.

Absent timely and complete reviews of FLAIR user access privileges, the risk of loss and unauthorized disclosure, modification, or destruction of critical Department data and information technology resources is increased.

Recommendation: We recommend that Department management ensure that FLAIR user access reviews are timely completed in accordance with established policies and procedures.

Labor Market Statistics Center

Finding No. 7: LMS Center Information Technology Security Controls

In our report No. 2012-070 we noted that the Department managed a Statewide employment statistics system through its Labor Market Statistics (LMS) Center, which was fully funded by the United States Department of Labor (USDOL), Bureau of Labor Statistics (BLS), and the USDOL, Employment Training Administration. The *BLS Labor*

*Market Information Federal and State Cooperative Agreement*¹⁷ (*Agreement*) between the BLS and the Department provided for the production of various statistical programs, including an Occupational Employment Statistics (OES) Program, which produced estimates of the number of workers and wage ranges by occupation.

The LMS Occupational Analysis Section, within the Department's LMS Center, was responsible for collecting from businesses OES Program survey data, which included information on employees and their wages in nearly 700 occupations within 400 industries at the national, state, and metropolitan levels. This data was used at the national level by the BLS to produce employment and wage estimates for, among other things, projecting future employment needs, informing schools and other training institutions about the skills and knowledge employers need, comparing occupational wages across geographic regions and among industry sector, and providing information on earnings for occupations.

Due to the confidentiality of the survey responses under Federal law, our prior audit of the OES Program survey process was limited to obtaining an understanding of the flow of survey data between State and Federal systems and comparisons of systems data at a summary level. In our report No. 2012-070, finding No. 1, we noted that the *Agreement* required the Department to have in place a system of IT security controls, consistent with industry standards and State and Federal laws, as applicable, that were tested on a regular basis. The *Agreement* also required that the Department make reports on the audit of such controls available to authorized BLS staff upon request. However, we found that the Department had not conducted a review of its survey-related systems and processes and, therefore, we recommended that Department management ensure that the effectiveness of relevant IT security controls be tested on a regular basis.

As part of our follow-up procedures, we evaluated Department efforts to ensure the effectiveness of relevant IT security controls and again found that the Department had not performed reviews of Department IT security controls and data related to the LMS survey-related systems and processes. According to Department management, the reviews had not been performed because the applications used by the LMS were developed and maintained by the BLS, not the Department. Subsequent to our audit inquiry, the Department contacted the BLS and, after receiving clarification from the BLS' Division of Management Systems, Department management indicated that the Office of Inspector General's work plan would be revised to include projects related to the LMS Center.

Absent regular tests of IT security controls, including those relevant to the LMS survey-related systems and processes, the Department has limited assurance as to the effectiveness of those controls in protecting sensitive and critical IT resources.

Recommendation: We recommend that the Department continue its efforts to ensure that the effectiveness of relevant LMS Center IT security controls are tested on a regular basis.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the findings included in our report No. 2012-070.

¹⁷ Administrative Requirements of Cooperative Agreement between the BLS and the AWI, CA # LM-20330-11-75-J-12, effective October 10, 2010, page I-1.

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 June 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 selected administrative issues. 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.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies noted in our report No. 2012-070.

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 Department documentation to determine whether the Department developed and implemented a transition plan to facilitate the transfer, pursuant to Chapter 2011-142, Laws of Florida, of the applicable functions of the AWI, the DCA, and OTTED.
- Examined 70 smartphone and cellular telephone invoices received for payment by the Department during the period July 2011 through February 2013 and related to equipment assigned to six Department employees to determine whether the invoices had been reviewed by the employees and Department management for the appropriateness of usage charges and whether any charges for personal use had been reimbursed by the employees in accordance with Department policies and procedures.
- Reviewed ten State Financial Assistance (SFA) awards totaling \$13,082,123 and granted by the Department during the period October 1, 2011, through February 28, 2013, to assess Department compliance with the requirements of the Florida Single Audit Act (FSAA).
- Evaluated the Department's process for reviewing Financial Reporting Packages (FRPs) due to the Department from ten SFA recipients during the period October 1, 2011, through February 28, 2013, to determine whether the Department timely received and reviewed the FRPs for compliance with the requirements of the FSAA.
- Evaluated Department policies, procedures, and processes for collecting and utilizing social security numbers to determine the extent of Department compliance with the requirements of State law.
- Tested documentation for the FLAIR user access reviews conducted by the Department during the period October 2011 through February 2013 to determine whether the Department had timely performed the reviews and had taken appropriate action on the issues noted in accordance with Department policies and procedures.
- Examined documentation for eight tangible personal property items with acquisition costs totaling \$12,645 that were identified as missing during the Department's 2011-12 fiscal year physical inventory to determine whether the Department complied with relevant laws, rules, and Department policies and procedures in reporting and investigating the missing items.
- Examined records related to the disposal, during the period July 2011 through February 2013, of 32 tangible personal property items with acquisition costs totaling \$105,000 to determine whether the Department disposed of the property items in accordance with governing laws, rules, and Department policies and procedures.
- Reviewed 2011-12 and 2012-13 fiscal year property insurance documents to determine whether the Department timely submitted updates to the Division of Risk Management and whether the Department maintained adequate documentation to support the reported insured values.
- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing Department operations.
- Interviewed Department personnel and reviewed established policies and procedures to obtain an understanding of Department internal controls related to tangible personal property, the Department's administration of the State Purchasing Card Program, wireless communications and other devices, travel expenditures, fixed capital outlay, FLAIR user access controls, and the FSAA.
- Observed, documented, and evaluated the effectiveness of selected processes and procedures for the management of Department tangible personal property, State Purchasing Card Program activities, wireless communications and other devices, travel expenditures, fixed capital outlay, FLAIR user access controls, and FSAA activities.

- Evaluated Department actions taken to correct the deficiencies noted in our report No. 2012-070. Specifically:
- Interviewed Department personnel and evaluated the Department’s process for reconciling and verifying that the wage and salary data in the Labor Market Statistics (LMS) Center databases and on the various LMS Center Web sites were in agreement.
- Reviewed IT agreements between the Department and the USDOL BLS and interviewed Department personnel to determine whether the Department had complied with the terms of the agreements by conducting regular reviews of Department IT security controls and data related to the LMS survey-related systems and processes.
- Examined documentation for six LMS contracts active during the period July 1, 2011, through February 28, 2013, to determine whether the contracts included a scope of work and that the Department had reviewed and approved subcontractor agreements.
- Examined documentation of programmatic monitoring reviews conducted by the Department during the period July 1, 2011, through February 28, 2013, for five Regional Workforce Boards to determine whether the Department timely performed the reviews and received corrective action plans from the Regional Workforce Boards.
- Examined guidance documentation made available to Department and Regional Workforce Board staff to determine whether the Department had developed policies and procedures or training materials to aid staff in identifying instances of suspected fraud, waste, and abuse.
- 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.

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.

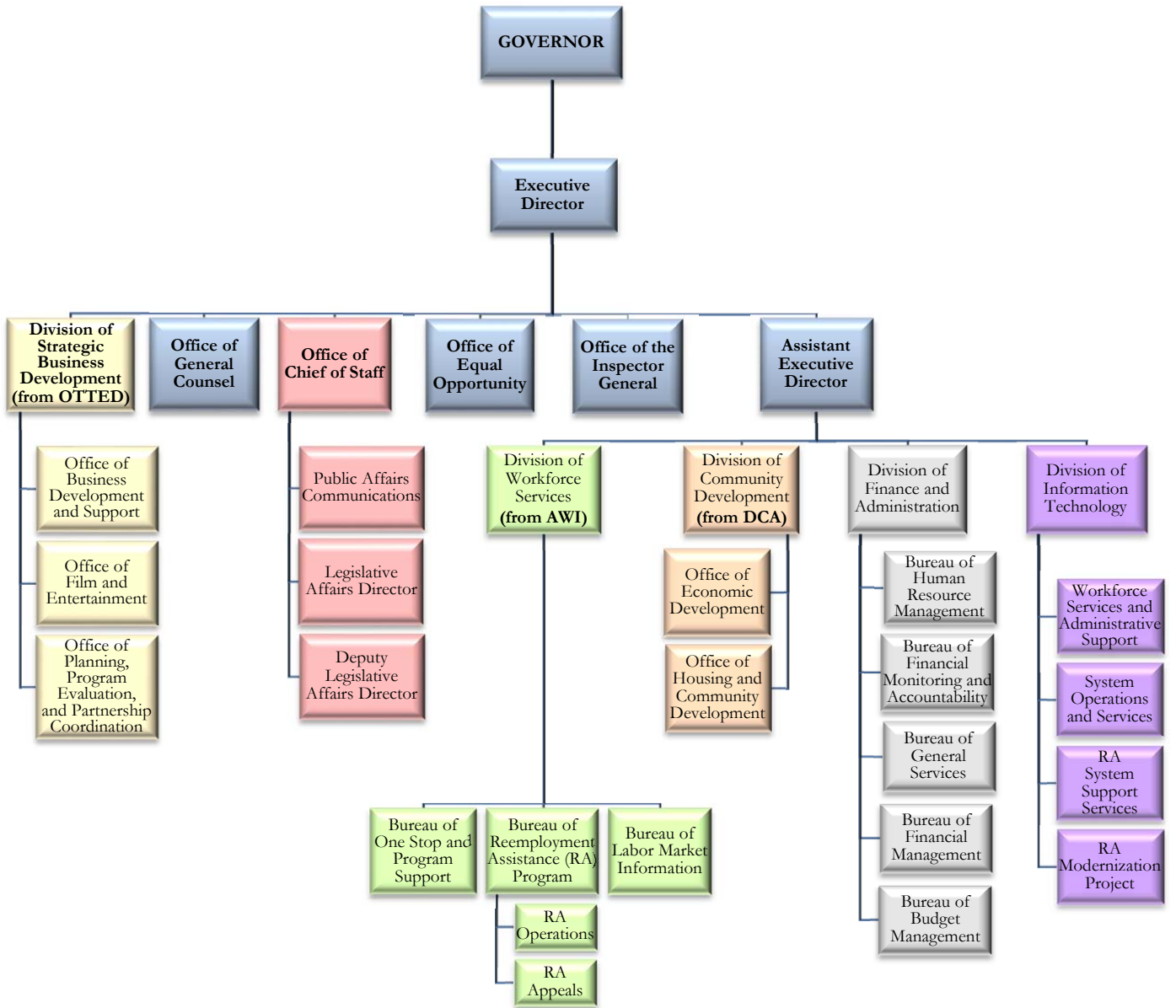


David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

In a response letter dated November 7, 2013, the Executive Director of the Department provided responses to our audit findings and recommendations. The Executive Director’s response is included as **EXHIBIT B**.

**EXHIBIT A
DEPARTMENT OF ECONOMIC OPPORTUNITY
ORGANIZATIONAL STRUCTURE AS OF FEBRUARY 13, 2013**



Source: Department records and Laws of Florida.

EXHIBIT B
MANAGEMENT'S RESPONSE

Rick Scott
GOVERNOR



Jesse Panuccio
EXECUTIVE DIRECTOR

November 7, 2013

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

Dear Mr. Martin:

I am writing in response to your correspondence dated October 8, 2013, which requested a written statement of explanation concerning findings contained in your preliminary and tentative audit of the Department of Economic Opportunity entitled *Selected Administrative Processes and Prior Audit Follow-up*.

Thank you for providing us the opportunity to respond to your preliminary and tentative findings. Our responses are included in the enclosures.

If you have additional questions or needs, we will make every effort to accommodate them expeditiously. Please contact either Mr. Joseph K. Maleszewski, Interim Inspector General at (850) 245-7141 or Ms. Carolyn McGriff, Director of Auditing at (850) 245-7136, for any further actions necessary regarding this response.

Sincerely,



Jesse Panuccio

JP/cam

Enclosure

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Florida Department of Economic Opportunity (DEO)
Response to Preliminary and Tentative Findings
Auditor General's Audit of Selected Administrative Processes and
Prior Audit Follow-Up
November 7, 2013

Finding No. 1: Florida Single Audit Act

Improvements are needed in the Department's administration of its responsibilities under the Florida Single Audit Act.

Auditor Recommendation: Department management should establish and implement comprehensive policies and procedures to promote compliance with the FSAA and to provide for effective oversight of State projects and SFA. Such policies and procedures should address documentation requirements and include a process for ensuring that required FRPs are timely received and properly reviewed and that any instances of recipient noncompliance or other noted deficiencies are timely followed up on and resolved.

The Department Response: We concur with all the issues detailed in Finding No. 1. The Department management will establish and implement comprehensive policies and procedures to promote compliance with the FSAA and to provide for effective oversight of State projects and SFA. The Department has developed and approved a contract/grant agreement template, which contains the FSAA standard contract language. In addition, contract/grant managers have been informed that any modification of the template must be reviewed by Legal prior to implementation.

Currently, the Department is drafting a provision for contract grant agreements requiring recipients to submit an annual certification. The annual certification form allows the recipients to either certify they did not expend \$500,000 or more of state financial assistance during its fiscal year, or that they did expend \$500,000 or more of state financial assistance during its fiscal year and will comply with the applicable state single or program-specific audit requirements by timely submitting the required audit documentation. A certification form will be provided as an attachment to these agreements. The Department anticipates completion of the annual certification form by December 31, 2013 and annually thereafter.

Finding No. 2: Collection of Social Security Numbers

Department controls should be enhanced to ensure compliance with statutorily required social security number collection activity reviews and notifications to individuals specifying the need for and use of social security numbers.

Auditor Recommendation: Department management should ensure that individuals are properly notified of the Department's purpose for collecting their SSN. In addition, Department management should enhance policies and procedures to ensure that a review of the Department's SSN collection activities is performed as required by State law.

The Department Response: The Department is updating its policy addressing the collection of social security numbers to include program areas added or removed during the Department's creation in October 2011. The Department expects to implement this new policy by March 1, 2014. During this interim period, the Department will continue to follow all laws governing the collection of social security numbers.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Florida Department of Economic Opportunity (DEO)
Response to Preliminary and Tentative Findings
Auditor General's Audit of Selected Administrative Processes and
Prior Audit Follow-Up
November 7, 2013

Finding No. 3: Smartphone and Cellular Telephone Usage

Department policies and procedures did not discourage personal use of State-owned smartphones and cellular telephones and should be enhanced to address text, data, picture, and video usage and to require that users attend security awareness training.

Auditor Recommendation: Department management should enhance the policies and procedures to discourage the personal use of smartphones and cellular telephones and to provide guidance on messaging, data, picture, and video usage. The Department should also provide security awareness training to all employees assigned a smartphone or cellular telephone and that documentation of personal usage and the corresponding reimbursements clearly demonstrate the accuracy of the reimbursements.

The Department Response: The Department is in the process of revising Policy 4.04-Communications Equipment Policy, which are the policies and procedures related to the purchase, use and security of state issued and personal mobile devices including, smartphones, cellular telephones, PDA's and tablets. The revised policy will discourage the personal use of state-owned mobile devices. The policy will also include guidance on messaging, data, picture, and video usage. The policy revision will establish a process for further identifying personal charges on the monthly billing. Instead of only highlighting personal charges, an additional identifier will be used to aid in the audit of billings. The Department plans to implement the revised policy by December 31, 2013.

Effective September 27, 2013, the Department revised Policy 5.10, Mobile Device Management. This policy addresses security and network access for mobile devices and addresses the need for Department-wide training for state mobile device usage. The General Services, Information Technology and Human Resources training team staff will develop a training and communications plan covering the requirements related to Department issued smartphones and cellular devices.

Finding No. 4: Tangible Personal Property Controls

Department tangible personal property records did not always include accurate information regarding the condition of property items. Additionally, Department policies and procedures did not always reflect current operating practices and State requirements, and the Department did not always ensure that missing property items were timely reported and investigated.

Auditor Recommendation: Department management should enhance Department tangible personal property policies and procedures to accurately reflect State requirements and Department processes and to better ensure the accuracy of Department FLAIR property records. Management should also ensure that applicable parties are timely notified of property items identified as missing during the physical inventory process so that a timely investigation can be conducted and appropriate corrective actions can be taken.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Florida Department of Economic Opportunity (DEO)
Response to Preliminary and Tentative Findings
Auditor General's Audit of Selected Administrative Processes and
Prior Audit Follow-Up
November 7, 2013

The Department Response: The Department takes Property Management seriously and will put in place necessary improvements to safeguard department property, to accurately reflect property data within the FLAIR property system, and to accurately and timely notify applicable parties as required.

- We have updated the Department property file to reflect accurate condition coding. Processes are now in place to capture correct condition coding within the Department's FLAIR property system, in accordance with the official FLAIR property manual.
- The Department is revising the Property Management policy to accurately reflect Department processes, applicable rules, titles, and references. The Department plans to deploy the revised policy by December 31, 2013.

Currently, notifications of all missing items are being forwarded to the Inspector General and to the Information Security Manager as required. This process change will be reflected in the revised policy. Property Custodian Delegates have the responsibility of determining the confidential nature of the missing items and will be provided reminders regarding their responsibilities.

Finding No. 5: Property Insurance

The Department did not maintain documentation supporting the accuracy of the insured values of its buildings and their contents.

Auditor Recommendation: Department management ensure that documentation supporting the determination of insured values be retained to demonstrate the accuracy of the amounts reported to the Division of Risk Management and used to determine the Department's premium assessments.

The Department Response: The Department has enhanced processes to affirmatively demonstrate insured values for the Department buildings and contents are accurate. Process improvements ensure that supporting documentation is maintained in the internal insurance files. For the FY 2013/14 insurance values, additional reports were compiled and are being maintained to support our calculations.

Finding No. 6: FLAIR User Access Reviews

Department staff did not always conduct accounting system user access reviews in accordance with Department policies and procedures

Auditor Recommendation: Department management should ensure that FLAIR user access reviews are timely completed in accordance with established policies and procedures.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Florida Department of Economic Opportunity (DEO)
Response to Preliminary and Tentative Findings
Auditor General's Audit of Selected Administrative Processes and
Prior Audit Follow-Up
November 7, 2013

The Department Response: We concur with the recommendation to ensure FLAIR access reviews are timely completed in accordance with established policies and procedures. Current standards for reviewing system access are annually for non-privileged accounts and semi-annually for privileged accounts. In addition to this standard, an internal procedure within Financial Management was established to conduct bimonthly reviews; this internal step exceeds Department standard. We agree with the importance of reviews to reduce the risk of loss and unauthorized disclosure of Department data. As a clarification, to be able to modify or delete FLAIR data, individuals would need access to the proper software within the Municipal Area Network; therefore, even if an employee retained access privileges, they would be unable to modify or delete data without utilizing the software within the network. Since the audit period, the FLAIR review is being completed in accordance with the Financial Management procedure. In addition, the scheduled bimonthly review is supplemented with a comparison of the FLAIR user list to the People First active employee data as well as termination emails received from the Department's Office of Human Resources.

LABOR MARKET STATISTICS CENTER

Finding No. 7: LMS Center Information Technology Security Controls

As similarly noted in our report No. 2012-070, the Department did not ensure that the effectiveness of information technology security controls relevant to the Labor Market Statistics survey-related systems and processes were tested on a regular basis.

Auditor Recommendation: The Department should continue its efforts to ensure that the effectiveness of relevant LMS Center IT security controls are tested on a regular basis.

The Department Response: The Department has an established, robust information technology security program and architecture under which all Department owned and supported systems operate. These protections include network, application and packet-level protections for all systems within the Department network. Additionally, the Department and its host provider, the Southwood Shared Resource Center (SSRC), have instituted automated vulnerability scanning services, intrusion detection and prevention services and anti-malware solutions for all servers, endpoints and many web applications. The results of these scans and services are used to measure the existence of security controls and the effectiveness of implemented security controls. The Department will continue to ensure all portions of LMS applications to which the Department has control are included in its normal monitoring and inspection program. Furthermore, LMS has appointed an Information System Security Coordinator.