

**STATE BOARD OF ADMINISTRATION**

**SELECTED ADMINISTRATIVE ACTIVITIES**

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**Operational Audit**



## STATE BOARD OF ADMINISTRATION

Article IV, Section 4(e) of the State Constitution (1968), as amended, establishes the State Board of Administration (SBA). The three-member SBA Board of Trustees is composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The Trustees delegate administrative and investment authority to an appointed Executive Director. Ashbel Williams served as Executive Director during the period of our audit.

The audit team leader was Ryan D. Nolan, CPA, and the audit was supervised by Allen G. Weiner, CPA. Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at [kathrynwalker@aud.state.fl.us](mailto:kathrynwalker@aud.state.fl.us) or by telephone at (850) 412-2781.

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.

## STATE BOARD OF ADMINISTRATION

### Selected Administrative Activities

#### SUMMARY

This operational audit of the State Board of Administration (SBA) focused on selected administrative activities and also included a follow-up on the finding noted in our report No. 2013-095. Our audit disclosed the following:

**Finding No. 1:** SBA records did not always include adequate written justification for contractual services procured on a noncompetitive basis or demonstrate that such procurements were approved in accordance with established policies and procedures.

**Finding No. 2:** SBA records did not always demonstrate that, prior to issuance and use of procurement cards, prospective cardholders signed *Cardholder Agreement Forms* acknowledging that they had read and understood SBA procurement card policies and procedures.

**Finding No. 3:** SBA procedures for conducting annual physical inventories did not ensure that all property and equipment items were included.

#### BACKGROUND

The State Constitution<sup>1</sup> establishes the State Board of Administration (SBA) governed by a three-member Board of Trustees composed of the Governor as Chair, the Chief Financial Officer, and the Attorney General. The SBA provides investment management and debt administrative services to various State entities and local governments. As of June 30, 2014, SBA-managed assets were valued at approximately \$181 billion while SBA-administered long-term debt totaled approximately \$20.4 billion. The SBA's approved budget for the 2012-13 and 2013-14 fiscal years totaled approximately \$74.8 million and \$78.8 million, respectively. Certain expenditures, such as external manager fees, are not budgeted but are paid from investment earnings or assets based on the fair value of the investments managed. External manager fees for the 2012-13 and 2013-14 fiscal years totaled approximately \$404.9 million and \$464.9 million, respectively.

#### FINDINGS AND RECOMMENDATIONS

##### **Finding No. 1: Noncompetitive Procurements**

The SBA established policies and procedures<sup>2</sup> for the procurement of commodities and contractual services. Those policies and procedures stated that commodities and contractual services were to be procured on a fair and objective basis, using competitive practices where practical, to obtain the maximum value for the expenditures incurred. However, the policies and procedures also provided for the noncompetitive procurement of exceptional purchases, such as emergency purchases<sup>3</sup> and purchases of commodities or contractual services only available from one source.

According to SBA policies and procedures, Executive Services staff were to initiate all noncompetitive procurements and submit written justification, including the conditions and circumstances prompting such purchases, to the

<sup>1</sup> Article IV, Section 4(e) of the State Constitution (1968), as amended.

<sup>2</sup> SBA Policy and Procedure 20-101, *Procurement*.

<sup>3</sup> SBA procurement policies and procedures define an emergency purchase as "any circumstance or cause involving potential or real health, welfare, injury, or financial loss to the SBA, or to the effective, efficient operation of the SBA that requires immediate purchase of equipment, supplies, materials, or services."

Procurement Manager for approval. In addition, the Chief Operating/Financial Officer was to approve all noncompetitive procurements, and the Procurement Manager was to maintain all records pertaining to the procurements.

As part of our audit, we examined SBA records for four noncompetitively procured contractual services contracts, totaling \$237,148, entered into during the period January 2012 through December 2013. Our audit procedures disclosed that SBA staff did not always adequately document the conditions and circumstances necessitating the noncompetitive procurements and the Procurement Manager's approval was not always obtained. Specifically, SBA records for the four contracts did not include written justification, including the conditions and circumstances, necessitating the noncompetitive procurements. These procurements related to corporate governance services, legal subscription services, management leadership workshops, and a commercial lease. In addition, documentation that the Procurement Manager had approved the noncompetitive procurement was only available for two of these four contracts.

Absent written justifications and approvals for noncompetitive procurements, the SBA cannot demonstrate that the purchases are appropriately exempted from competitive procurement requirements.

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**Recommendation:** We recommend that SBA management ensure that, for all commodities or contractual services procured on a noncompetitive basis, adequate written justification is maintained to demonstrate the conditions and circumstances necessitating the purchase. We also recommend that SBA management ensure that all noncompetitive procurements are approved in accordance with established policies and procedures.

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#### **Finding No. 2: Procurement Card Controls**

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The SBA implemented a Procurement Card (PCard) Program to provide a cost-effective and timely mechanism for acquiring goods and services. The SBA established policies and procedures<sup>4</sup> for issuing and using PCards which, among other things, specified the goods and services cardholders were prohibited from purchasing and provided that cardholders were accountable for all transactions made. SBA policies and procedures also required that, prior to PCard issue and use, prospective cardholders sign a *Cardholder Agreement Form* acknowledging that they had read and understood the policies and procedures.

As part of our audit, we examined SBA records for 45 cardholders with PCard activity during the period January 2012 through December 2013 to determine whether a *Cardholder Agreement Form* was signed prior to the issue and use of the PCard. Our audit procedures disclosed that:

- For 4 cardholders with credit limits ranging from \$5,000 to \$15,000 per month, SBA staff could not provide completed *Cardholder Agreement Forms*. During the period January 2012 through December 2013, the 4 cardholders incurred charges totaling \$180,339. In response to our audit inquiry, SBA management indicated that the original *Cardholder Agreement Forms* were destroyed when these 4 cardholders separated from SBA employment.
- For 2 cardholders with individual credit limits totaling \$10,000 per month, the *Cardholder Agreement Forms* were completed in March 2014, over 5 years after the PCards had been issued. In response to our audit inquiry, SBA management indicated that these *Cardholder Agreement Forms* had been completed following an internal review during which the original forms could not be located.

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<sup>4</sup> SBA *Procurement Card Procedures Manual*.

Absent effective controls to ensure and demonstrate that all cardholders sign a *Cardholder Agreement Form* prior to the issue and use of the PCards, the risk is increased that PCards may not be appropriately used in accordance with established SBA policies and procedures.

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**Recommendation:** We recommend that SBA management enhance controls to ensure and demonstrate that, prior to the issue and use of a PCard, all prospective cardholders complete a *Cardholder Agreement Form*.

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### Finding No. 3: Property and Equipment Controls

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Effective controls for the management of property require that property items be adequately controlled, safeguarded, and accounted for by management. To record and maintain accountability for all SBA property and equipment items,<sup>5</sup> the SBA utilized an asset management system. SBA policies and procedures specified that an annual physical inventory verifying the existence and location of each item recorded in the asset management system was to be conducted after fiscal year end by the Office Services Section. Support Services staff identified the property and equipment items to be included in the physical inventory.

Our audit tests disclosed that SBA policies and procedures did not effectively ensure the complete and proper physical inventory of SBA property and equipment. In September 2013, Office Services staff began conducting a physical inventory of 2,030 property items<sup>6</sup> owned by the SBA as of September 2, 2013. However, our analysis of SBA asset management system records as of September 2, 2013, found that there were 2,563 property items with acquisition costs totaling approximately \$13.9 million that should have been subject to the physical inventory process. The acquisition costs of the 533 items not identified by Support Services staff, and not subjected to the physical inventory process, totaled over \$848,000. Included in the 533 items were 53 items, with acquisition costs totaling over \$45,000, classified in the asset management system as computer workstations and laptops.

Absent effective controls, designed and implemented to ensure the complete and proper physical inventory of SBA property and equipment, SBA management has reduced assurances regarding the appropriate control and safeguard of, and accountability for, SBA property and equipment. Additionally, computers, by nature of their portability, adaptability for personal use, and data storage capabilities, are more susceptible to loss and theft. Therefore, controls to ensure the proper accountability for these items, and any sensitive and confidential data they may contain, are especially important.

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**Recommendation:** We recommend that SBA management enhance controls to ensure that all SBA property and equipment items are accounted for during the annual physical inventory process.

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<sup>5</sup> SBA Policy and Procedure 20-140, *Property and Equipment*, defined “property and equipment” as tangible personal property and other property and equipment that is “attractive” but does not have sufficient value or the expected useful life to be categorized as tangible personal property. Tangible personal property is defined as: (1) office furniture and equipment with values equal to or greater than \$1,000, (2) hardback books with values equal to or greater than \$250, and (3) information technology hardware and software assets with values equal to or greater than \$1,000. Policy and Procedure 20-140 also listed various items of property and equipment that should be accounted for in the asset management system, including, but not limited to, laptop computers, palmtops, printers, scanners, personal digital assistants (PDAs), televisions, audio visual equipment, projectors, and copiers.

<sup>6</sup> To perform the physical inventory, Office Services staff used a handheld scanner to scan the tags affixed to the property and equipment items located. There were a total of 2,214 property tag scans; however, that total included 169 duplicate scans and 17 scans of items that were not listed in asset management system records. Two property items (a laptop and a hardback book) were noted as missing and, therefore, not scanned.

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**PRIOR AUDIT FOLLOW-UP**

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The SBA had taken corrective actions for the finding included in our report No. 2013-095.

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

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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 2014 through August 2014 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 State Board of Administration (SBA) administrative activities. 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, 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. 2013-095.

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 auditee 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:

- Performed inquiries, observations, and inspections of documents and records to determine whether SBA management had adequately designed and implemented controls, including policies and procedures, for the procurement of goods and services.
- Examined SBA records related to four noncompetitively procured contractual services contracts, totaling \$237,148, entered into during the period January 2012 through December 2013 to determine whether:
  - The services obtained were in the best interests of the State, acquired in an economical manner, and not prohibited by State law.
  - The contracts were subject to adequate review and appropriate approval and contained clear and appropriate contract provisions.
  - The procurements were made and documented in accordance with SBA policies and procedures.
- Examined SBA records for 25 purchase orders, totaling \$758,136, issued during the period January 2012 through December 2013 to determine whether:
  - The goods or services obtained were in the best interests of the State, acquired in an economical manner, and not prohibited by State law.
  - The purchase orders were issued in accordance with SBA policies and procedures.
- Examined SBA records for 25 Procurement Card (PCard) transactions, totaling \$61,438, made by 15 cardholders during the period January 2012 through December 2013 to determine whether the related purchases appeared reasonable, were properly supported and approved, and met the needs of the SBA.
- Determined whether *Cardholder Agreement Forms* had been completed prior to PCard issue and use for 45 cardholders with PCard activity during the period January 2012 through December 2013.
- Examined SBA records for five procurements made using a Request for Quote during the period January 2012 through December 2013 to determine whether:
  - The services obtained were in the best interests of the State, acquired in an economical manner, and not prohibited by State law.
  - The related contracts were subject to adequate review and appropriate approval and contained clear and appropriate contract provisions.
  - The procurements were made and documented in accordance with SBA policies and procedures.
- Examined SBA records for five procurements made using an Invitation to Negotiate during the period January 2012 through December 2013 to determine whether:
  - The services obtained were in the best interests of the State, acquired in an economical manner, and not prohibited by State law.
  - The related contracts were subject to adequate review and appropriate approval and contained clear and appropriate contract provisions.
  - The procurements were made and documented in accordance with SBA policies and procedures.

- Examined SBA records for four public market asset investment manager selections made during the period January 2011 through December 2013 to determine whether the selections were awarded and documented in accordance with SBA policies and procedures.
- Examined SBA records for five broker-dealer selections made during the period January 2012 through December 2013 to determine whether the selections were awarded and documented in accordance with SBA policies and procedures.
- Examined SBA records for 25 contracts that were active during the period January 2012 through December 2013 to determine whether SBA staff initiated, developed, and monitored the contracts in accordance with applicable policies and procedures and contract terms.
- Examined SBA records for 22 contract payments, totaling \$3,823,484, made during the period January 2012 through December 2013 to determine whether the applicable goods and services were received and SBA staff made contract payments in accordance with contract terms and policies and procedures.
- From the population of contracts active during the period January 2012 through December 2013, examined documentation for 15 contract amendments and renewals to determine whether SBA staff administered and approved contract amendments and renewals in accordance with applicable policies and procedures and contract terms.
- Reviewed applicable laws, rules, and other guidelines to obtain an understanding of the legal framework governing SBA operations.
- Observed, documented and evaluated the effectiveness of selected SBA processes and procedures for:
  - The SBA’s budgetary processes.
  - Ensuring the proper control and safeguard of, and accountability for, SBA property and equipment in accordance with applicable guidelines. The acquisition costs of SBA property and equipment totaled approximately \$13.9 million as of September 2, 2013.
  - The SBA’s acquisition, assignment, and use of wireless devices with related costs totaling \$51,462 during the period January 2012 through December 2013.
- 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 letter dated January 9, 2015, the Executive Director of the State Board of Administration provided responses to our audit findings and recommendations. The Executive Director’s response is included as **EXHIBIT A**.

**EXHIBIT A  
MANAGEMENT'S RESPONSE**



**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

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ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO

January 9, 2015

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

Dear Mr. Martin:

As requested in your December 3, 2014 letter, the following are our responses to the preliminary and tentative audit findings and recommendations which may be included in your report on the audit of the State Board of Administration's (SBA) selected administrative activities.

Finding No. 1:

SBA records did not always include adequate written justification for contractual services procured on a noncompetitive basis or demonstrate that such procurements were approved in accordance with established policies and procedures.

Recommendation:

We recommend that SBA management ensure that, for all commodities or contractual services procured on a noncompetitive basis, adequate written justification is maintained to demonstrate the conditions and circumstances necessitating the purchase. We also recommend that SBA management ensure that all noncompetitive procurements are approved in accordance with established policies and procedures.

SBA Response:

While all four exceptions noted were approved by the Chief Operating/Financial Officer and Procurement Manager, we are reviewing our policy requirements to ensure they reflect management's expectations and to be able to demonstrate the conditions and circumstances necessitating the procurement of commodities or services on a noncompetitive basis.

Finding No. 2:

SBA records did not always demonstrate that, prior to issuance and use of procurement cards, prospective cardholders signed Cardholder Agreement Forms acknowledging that they had read and understood SBA procurement card policies and procedures.

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

Mr. David W. Martin  
January 9, 2015  
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**Recommendation:**

We recommend that SBA management enhance controls to ensure and demonstrate that, prior to the issue and use of a procurement card, all prospective cardholders complete a Cardholder Agreement Form.

**SBA Response:**

One of the SBA's standard operating procedures is to ensure that remaining accounts of terminated employees are verified and approved prior to destruction of the cards, Cardholder Agreement Form and closing of the accounts. To enhance our ability to retrieve signed Cardholder Agreement Forms, the SBA has started to electronically scan all forms currently held and any additional forms signed in the future.

**Finding No. 3:**

SBA procedures for conducting annual physical inventories did not ensure that all property and equipment items were included.

**Recommendation:**

We recommend that SBA management enhance controls to ensure that all SBA property and equipment items are accounted for during the annual physical inventory process.

**SBA Response:**

The vast majority of the 533 properties that were not subject to physical inventory process are individual panels and related parts of cubicle-type office furniture that have been moved and reconfigured since originally acquired 20 years ago. All but four of the 53 items classified as computer work stations and laptops acquired in 1996-2004 were located and accounted for. We are reviewing the policies and procedures to ensure property items are adequately accounted for and are included in the annual physical inventory.

Thank you for the opportunity to respond to these findings and recommendations. If you have any questions, please do not hesitate to contact Ms. Rivera-Alsing at (850) 413-1259 or me at (850) 413-1250.

As always, we appreciate the Auditor General's staff diligence and professionalism.

Sincerely,



Ashbel C. Williams  
Executive Director & Chief Investment Officer

cc: Ms. Florida Rivera-Alsing, Chief Audit Executive, State Board of Administration