

DEPARTMENT OF STATE

Division of Corporations,
Museum of Florida History,
and Selected Administrative Activities



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Auditor General

Secretary of State

The Department of State is established by Section 20.10, Florida Statutes. The head of the Department is the Secretary who is appointed by the Governor and subject to confirmation by the Senate. Ken Detzner served as Secretary of State during the period of our audit.

The team leader was Barbara St. George, CPA, and the audit was supervised by Christi Alexander, CPA.

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DEPARTMENT OF STATE

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SUMMARY

This operational audit of the Department of State (Department) focused on the Division of Corporations (Division), the Museum of Florida History (Museum), and selected administrative activities. The audit also included a follow-up on finding Nos. 6 through 8 noted in our report No. 2014-181. Our audit disclosed the following:

Division of Corporations

Finding 1: The Division was unable to provide sufficient supplementary metadata¹ necessary for an accurate understanding of the structure of, and relationships among, Corporate Filing System data files. The absence of sufficient supplementary metadata precluded a consistent and reliable analysis of the Corporate Filing System data provided by the Division.

Finding 2: Corporate Filing System application input edits need improvement to ensure the accuracy and validity of Corporate Filing System data.

Finding 3: Data processing controls related to the Corporate Filing System need enhancement to ensure that business entity transaction data is complete, accurate, and valid.

Museum of Florida History

Finding 4: The Museum did not always obtain proof of insurance for outgoing loans of artifacts as specified by Department rules.

Finding 5: The Museum did not always inform lenders of the existence of the provisions of the Florida Arts and Culture Act describing the obligations of the lender and the Museum and specifying the conditions pursuant to which the Museum may gain title to the lender's property.

Finding 6: Museum controls were not always sufficient to effectively safeguard moneys collected.

Selected Administrative Activities

Finding 7: As similarly noted in our report No. 2014-181, the Department did not always timely record property acquisitions to Department property records.

Finding 8: Department controls over employee access to the Florida Accounting Information Resource Subsystem need improvement to reduce the risk of unauthorized disclosure, modification, or destruction of Department data.

¹ The information necessary to interpret and analyze system data, including file layouts and definitions, table relationships, field definitions, record counts, and delimiting characters.

BACKGROUND

The mission of the Department of State includes collecting the State's important public records, preserving the State's rich historical and cultural heritage, promoting economic development through a business-friendly corporate filing environment, facilitating public access to State Government, and providing oversight to ensure fair and accurate elections. To execute its mission, the Department is organized into the Office of the Secretary and six divisions: the Division of Administration, Division of Corporations, Division of Cultural Affairs, Division of Elections, Division of Historical Resources, and Division of Library and Information Services.

FINDINGS AND RECOMMENDATIONS

DIVISION OF CORPORATIONS

The Department, Division of Corporations (Division), serves as the State's central repository for a number of commercial activities, including a variety of business entity filings, trade and service mark registrations, Federal lien recordings, judgment lien filings, Uniform Commercial Code financing statements, fictitious name registrations, notary commissions, and cable and video service franchise filings. The Division provides two broad functional services: (1) formalizing the legal standing of a business or activity by accepting and indexing the filing or registration and (2) supplying information and certification regarding the filings and activities of record.

According to Division records, the Division processed over 400,000 business entity filings and other registrations and commissions during each of the 2013, 2014, and 2015 calendar years, and, as of April 12, 2016, there were over 2 million active business entities in the State. Pursuant to State law,² the Division's duty to file documents is ministerial and does not create a presumption that the information contained in the documents submitted by business entities and individuals is valid or correct. Division staff accept and process documents that meet statutory requirements and are accompanied by the proper fee. The Division utilizes the Corporate Filing System to store and report business information and makes the information available on the Division's Web site, Sunbiz.org.³

As shown in Table 1, Division revenue from commercial filings and other activities totaled approximately \$440 million during the period July 2014 through February 2016.

² Section 607.0125(4), Florida Statutes.

³ Sunbiz.org serves as the State's official business entity index.

Table 1
Division Revenue
July 2014 Through February 2016

Source	Total
Supplemental corporate fees	\$155,812,128
Annual report fees	149,848,233
Corporate fees	78,329,853
Fictitious names fees	9,716,727
Notary commission fees	9,292,656
Certificate fees	8,994,168
Partnership fees	1,061,849
Trademark fees	384,921
Other miscellaneous revenue ^a	26,510,049
Total	<u>\$439,950,584</u>

^a Other miscellaneous revenue included, but were not limited to, administrative fees, lien fees, and Uniform Commercial Code filing fees.

Source: Department records.

Finding 1: Corporate Filing System

Each information technology (IT) system needs complete, well-documented policies, procedures, and other records to describe how the system, and any supporting databases, operates and is used to support key entity processes. In addition, supplementary metadata (the information necessary to interpret and analyze system data, including file layouts and definitions, table relationships, field definitions, record counts, and delimiting characters) is necessary for an accurate understanding of the structure of, and relationships among, data files.

One of our audit objectives was to analyze Corporate Filing System data to determine whether corporate filing revenues were timely and properly collected, processed, deposited, and recorded. As a part of our audit, we requested the Division to provide business entity filing data in electronic format along with the corresponding supplementary metadata. Although Division staff provided the requested business entity filing data, the Division was unable to provide sufficient supplementary metadata, such as definitions for Corporate Filing System data fields, necessary for an accurate understanding of the structure of, and relationships among, the data files. The lack of sufficient supplementary metadata precluded a consistent and reliable analysis of the data provided. In response to our audit inquiry, Division management indicated that they were currently in the process of rewriting the Corporate Filing System to address the noted issues.

Recommendation: We recommend that Division management continue efforts to maintain sufficient supplemental metadata necessary for an accurate understanding of the structure of, and relationships among, the Corporate Filing System data files. Sufficient supplementary metadata should be made available upon audit request to facilitate the analysis of Corporate Filing System data in connection with future audits of the System.

Finding 2: Application Input Edits

Effective input controls include application edits to provide reasonable assurance that erroneous data is detected before processing. Appropriate edits to reasonably assure that data is valid and recorded in the proper format include, among others, field format controls, required field controls, limit and reasonableness controls, valid combinations of related data field values, and master file matching. Our audit included an evaluation of various Corporate Filing System data and disclosed that improvements to Corporate Filing System application input edits were needed. Specifically, we noted that:

- Edits had not been established to prevent blank document dates from being associated with business entity filings. Each business entity filing is to have a document date that generally serves as the effective date of the filing. While the Corporate Filing System is to generate a document date for each filing, Division staff can alter the document date for various reasons and System edits did not prevent blank dates from being associated with a filing.
- Edits had not been established to prevent invalid document dates from being entered by Division staff for filings. Filers may specify an effective date for a document, but the effective date cannot be more than 5 business days prior to the date of receipt or 90 days after the date of filing. The Corporate Filing System did not have edits established to prevent invalid dates nor the entry of effective dates outside of this range.
- Fields were not prevented from accepting invalid data. For example, we noted that punctuation marks and special characters, such as a periods, commas, and plus signs, occurred in the alpha-numeric field for the charter number. The charter number is a unique number assigned to each newly registered business entity that may be used by the public to search for business entities on Sunbiz.org or by Division staff to search the Corporate Filing System.

Effective input controls help ensure that data input into a system is accurate and valid and that any incorrect information is timely identified and rejected or corrected. Additionally, online input edits for all key fields are necessary to ensure the accuracy and validity of the data being processed.

Recommendation: We recommend that Division management enhance Corporate Filing System input controls to ensure the accuracy and validity of the System data.

Finding 3: Data Processing Controls

Depending on the type of filing, Corporate Filing System information was processed and stored in one of two databases, Azure Cloud or Reflections. Filings that could be completed online, such as annual reports, reinstatements, and registrations and dissolutions of for-profit corporations, were updated directly to the Azure Cloud which automatically updated the Division's Web site, Sunbiz.org. Other transactions and filings that could not be completed online, such as payments made via mail or in-person, refunds, and correspondence, were processed manually in Reflections. Because the transactions and filings processed through Reflections did not update directly to Sunbiz.org, Azure Cloud and Reflections had to be synchronized on a quarterly basis and any unsynchronized items were provided to Division staff for manual adjustment to either Azure Cloud or Reflections.

Pursuant to State law,⁴ each business entity authorized to transact business in the State is required to deliver to the Department for filing a sworn annual report between January 1st and May 1st each year. In

⁴ Sections 605.0212, 607.1622, 617.1622, and 620.1210, Florida Statutes.

addition, a business entity is to remit to the Department an annual report fee and, as applicable, a supplemental corporate fee,⁵ when filing the annual report. If the supplemental corporate fee is remitted after May 1st, the Department is to charge the business entity a \$400 late fee.

Data processing controls are used to reasonably ensure that transaction data is complete, accurate, and valid and that appropriate data output is available for users. Data output can be in hard-copy form or as information available for online viewing. Our evaluation of the Division Corporate Filing System and related records disclosed that Corporate Filing System data processing controls were not always adequate to ensure that business entity information included in the Corporate Filing System was accurate and agreed with the information reported on Sunbiz.org. For example, our examination of Corporate Filing System records for the period May 2015 through December 2015 disclosed instances where business entities appeared to have filed annual reports after the May 1, 2015, deadline. We further examined Division records and noted that the annual report filing dates recorded in the Corporate Filing System were as of September 2015 and that payments for the annual report fee and the supplemental corporate fee (but not the late fee) were recorded as received in September or October 2015. However, Sunbiz.org showed annual report posting dates of April 30, 2015, or May 1, 2015 for these entities.

In response to our audit inquiry, Division management indicated that the annual reports had been timely filed on either April 30th or May 1st. However, due to the volume of last-minute filers and system bandwidth limitations, the annual reports were not timely processed by the Corporate Filing System. This issue came to the Division's attention in September 2015, the month the entities were notified that they would be administratively dissolved or their certificate of authority would be revoked because Corporate Filing System records indicated that the entities had not filed the required annual report. Due to the System issues, any payments for the annual report fee or the supplemental corporate fee that were not timely made were accepted by the Department without the assessment of a late fee. Division management further indicated that the use of two databases contributed to the conflicting business entity data and that the Division was in the process of updating the Corporate Filing System to operate using only one database.

Appropriate controls related to data processing are essential for ensuring that business entity data is complete, accurate, and valid and that appropriate data output is provided to users of the Corporate Filing System and Sunbiz.org.

Recommendation: We recommend that Division management enhance data processing controls to ensure that business entity information is complete, accurate, and valid and that such information is provided to users of the Corporate Filing System and Sunbiz.org.

MUSEUM OF FLORIDA HISTORY

The mission of the Department, Division of Cultural Affairs (Division), is to advance, support, and promote arts and culture to strengthen the economy and quality of life for all Floridians. State law⁶ authorizes the Division to operate the Museum of Florida History (Museum), which focuses on artifacts and eras unique

⁵ Section 607.193, Florida Statutes, imposes the supplemental corporate fee on limited liability companies, for-profit corporations, and partnerships.

⁶ Section 265.707, Florida Statutes.

to the State's development and on roles that Floridians have played in national and global events. Pursuant to Department rules,⁷ the Division has delegated to the Museum responsibility for managing the permanent historical collections. Accredited by the American Alliance of Museums⁸ since 1986, the Museum houses more than 45,000 artifacts, dating mainly from the mid-19th century to the present, reflecting the State's many cultural and ethnic groups, geographical areas, and varied activities and occupations. All objects in the collections are available for study and research, and many are available for exhibition and loans to other museums.

Finding 4: Outgoing Loans of Museum Artifacts

Pursuant to Department rules,⁹ the Museum may loan State-owned historical artifacts for scholarly or educational purposes or to assist in carrying out the Museum's responsibility to ensure proper curation of State-owned artifacts. Museum collection policies and procedures specified that artifact loans were to be made for up to a 1-year period. However, a borrowing institution could request to renew an artifact loan. Department rules¹⁰ specify that, to complete the loan process, the Museum is to obtain proof of insurance for loans of State-owned artifacts whose combined value is greater than \$500 and proof of insurance must be received by the Museum before the artifacts leave the Museum's custody. The Museum is also required to evaluate each renewal request using the same criteria used to evaluate initial artifact loan requests.¹¹

As part of our audit, we examined Museum records for ten outgoing loans of State-owned artifacts (seven initial loans and three loan renewals) that were in effect during the period July 2014 through February 2016 and noted that, for the three loan renewals, with the combined insurance value of the loaned artifacts totaling \$308,685, Museum records did not evidence that the Museum had obtained proof of insurance renewal. In response to our audit inquiry, Museum management indicated that proof of insurance renewal was only obtained for artifacts that increased in value and the Museum assumed that insurance had been renewed by the borrower for those artifacts whose values had not changed.

Proof of insurance is necessary to demonstrate that sufficient coverage is obtained by the borrower to protect the interests of the State in the event of damage to or loss or theft of a State-owned artifact.

Recommendation: We recommend that Museum management strengthen collection policies and procedures to require proof of insurance for all loans of State-owned artifacts in accordance with Department rules.

⁷ Department Rule 1T-12.002(1), Florida Administrative Code.

⁸ Founded in 1906, the American Alliance of Museums (AAM) is a national, professional membership organization for museums and their personnel which promotes professional standards through publications and education programs and services. The AAM museum accreditation program is a peer review process that offers a systematic way to judge a museum's performance within the profession.

⁹ Department Rule 1T-12.005(1), Florida Administrative Code.

¹⁰ Department Rule 1T-12.005(5)(c), Florida Administrative Code.

¹¹ Department Rule 1T-12.005(7), Florida Administrative Code.

Finding 5: Incoming Loans

Pursuant to State law¹² and Museum collection policies and procedures, the Museum may borrow collections and individual examples of objects and specimens from any source when such collections, objects, or specimens are relevant to the Museum's exhibits and educational programs. State law¹³ specifies that, for all property loaned to the Museum, the Museum is to inform the lender of the existence of the provisions of the Florida Arts and Culture Act,¹⁴ including Section 265.565, Florida Statutes, that describe the obligations of the lender and the Museum and specify the conditions pursuant to which the Museum may gain title to the lender's property. Museum collection policies and procedures required that all incoming loans were to be for a definite period of time and supported by a written loan agreement acknowledged and signed by the lender and the Chief Curator of the Museum. While the Museum accepted loan documents from other museums or organizations, if the documents from the lender did not adequately cover the details of the loan, the Museum was to ensure that the loan files included all required information.

As part of our audit, we examined Museum records for 13 incoming loans that were in effect during the period July 2014 through February 2016 and noted that, for 4 of the loans, Museum records did not evidence that the Museum informed the lender of the existence of the provisions of the Florida Arts and Culture Act. In each of these 4 instances, the lender chose to use their own loan documents. In response to our audit inquiry, Museum management indicated that, while the Museum sends the lender a copy of the Museum's incoming loan agreement which includes the required notification, the lender is not required to complete and return the agreement. If the lender chooses to use their own outgoing loan agreement, Museum records will only include the lender's completed loan agreement and will not evidence the required notification.

Documentation evidencing lender notification of the provisions of the Florida Arts and Culture Act is necessary to ensure that the obligations and rights of the lender and the Museum are appropriately communicated in accordance with State law.

Recommendation: We recommend that Museum management enhance collection policies and procedures to ensure that Museum records document that all lenders are informed of the provisions of the Florida Arts and Culture Act.

Finding 6: Collection Safeguards

Appropriate safeguards for moneys collected are essential for the prevention and detection of theft or loss. Such safeguards include preparing receipts or logs of collections, restrictively endorsing checks immediately upon receipt, documenting any transfers of collections between employees, and timely depositing all moneys received. During the period July 2014 through February 2016, the Museum collected revenues totaling approximately \$549,377 from gift shop purchases, memberships, cash gifts, and other donations. As part of our audit, we evaluated Museum policies and procedures for collecting,

¹² Section 265.565, Florida Statutes.

¹³ Section 265.565(3)(a)3., Florida Statutes.

¹⁴ Sections 265.281 through 265.709, Florida Statutes.

processing, depositing, recording, and safeguarding cash gifts and other donations to the Museum and Museum collection controls and noted:

- Museum staff did not prepare pre-numbered receipts or log when checks were initially received or document the transfer of collections from one employee to another.
- Checks were not restrictively endorsed at the point and time of receipt. In response to our audit inquiry, Museum management indicated that, while checks were not endorsed until the day of the deposit, the Museum ensured that checks were secured in a locked cabinet until deposited.
- Although Museum policies and procedures did not specify a time frame for depositing cash gifts and other donations, Museum management indicated that deposits were generally to be made every 2 weeks. As part of our audit, we examined Museum records for 25 deposits, totaling \$23,988, that were made during the period July 2014 through February 2016 and noted that, for 12 deposits totaling \$4,664, the deposits were made from 12 to 38 business days (an average of 22 business days) after receipt of the cash gift or other donation. In response to our audit inquiry, Museum management indicated that, due to other staff commitments and variations in the Museum's schedule, deposits were not always made every 2 weeks.

Effective collection controls provide greater assurance that funds will be appropriately safeguarded and accounted for and that any theft or loss, should it occur, will be timely detected.

Recommendation: We recommend that Museum management enhance policies and procedures to provide for appropriate collection controls. Such policies and procedures should require that checks be restrictively endorsed and logged at the point and time of receipt, all transfers of collections between employees be documented, and all checks be timely deposited in accordance with a specified time frame.

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated selected Department administrative activities and controls, including those related to Department property and information technology (IT) access privileges.

Finding 7: Property Controls

Effective controls for the management of tangible personal property¹⁵ require that property items be adequately controlled, safeguarded, and accounted for by Department management. Department of Financial Services (DFS) rules¹⁶ specify that State agencies are to record all tangible personal property with a value or cost of \$1,000 or more and a projected useful life of 1 year or more in the FLAIR Property Subsystem. In addition, Department procedures specified that all attractive property items (e.g., cameras and laptop computers) costing less than \$1,000 were also to be accounted for in the FLAIR Property Subsystem and that all tangible personal property and attractive property items be recorded in Department property records within 60 days of acquisition.

In our report No. 2014-181 (finding No. 6), we noted that the Department did not always timely update Department property records for property acquisitions. According to Department property records, the Department acquired 121 property items, with acquisition costs totaling \$1,960,534, during the period

¹⁵ Property is defined in applicable laws and rules as State-owned equipment, fixtures, and other tangible personal property of a nonconsumable or nonexpendable nature, the value or cost of which is \$1,000 or more and the projected useful life of which is 1 year or more.

¹⁶ DFS Rule 69I-72.002, Florida Administrative Code.

July 2014 through February 2016. As part of our audit follow-up procedures, we analyzed Department property records as of February 29, 2016, and found that the Department recorded 18 of the 121 property items, with acquisition costs totaling \$46,561, to Department property records 64 to 127 days (an average of 92 days) after the dates the items were received. In response to our audit inquiry, Department management indicated that Department procedures would be enhanced to ensure that Department property records were timely updated for property acquisitions.

The timely recording of property items to Department property records is necessary to ensure proper accountability for and safeguarding of State-owned property.

Recommendation: We again recommend that Department management enhance procedures to ensure that Department property records are timely updated for property acquisitions.

Finding 8: FLAIR Access Controls

The Department utilizes FLAIR to authorize payment of Department obligations and to record and report financial transactions. Controls over employee access to FLAIR are necessary to help prevent and detect any improper or unauthorized use of FLAIR access. Accordingly, FLAIR access should be: (1) limited to properly authorized employees, (2) appropriate for the employee's assigned duties and responsibilities, (3) promptly deactivated when employees separate from Department employment or are reassigned to a position no longer requiring FLAIR access, and (4) periodically reviewed for continued appropriateness.

Department policies and procedures required supervisors to notify the Department's FLAIR Access Control Custodian when an employee separated from Department employment and specified that the FLAIR Access Control Custodian was to deactivate the employee's FLAIR access privileges within 1 working day of notification. As part of our audit, we evaluated Department FLAIR access controls, including procedures for periodically reviewing FLAIR user access privileges to ensure the continued appropriateness of the access. We found that, although the Department annually reviewed FLAIR user access privileges to ensure that users only had the access privileges necessary to perform their job duties, Department policies and procedures did not require, and the Department had not performed, more frequent reviews of the appropriateness of FLAIR user access privileges. More frequent FLAIR user access privilege reviews may have detected some of the access deficiencies we noted. Specifically, we noted that:

- Employees performing financial management functions had been granted update capabilities to incompatible functions in FLAIR. Our examination of FLAIR access records for the period July 2014 through February 2016 disclosed that 3 user accounts (assigned to 3 employees) had update capabilities to both the disbursement and cash receipts utility functions. Incompatible access privileges heighten the risk that errors or fraud may occur and not be timely detected.
- Access privileges to FLAIR were not always timely deactivated upon a user's separation from Department employment. Our examination of FLAIR access and People First records disclosed that FLAIR access privileges for 6 of the 11 employees who separated from Department employment during the period July 2014 through February 2016 remained active 3 to 269 business days (an average of 71 business days) after the employees' separation dates recorded in People First.

In addition, our audit tests disclosed that 1 of the former employee's FLAIR user account was used to make multiple entries in FLAIR nearly 11 months after the employee separated from

Department employment. In response to our audit inquiry, Department management indicated that, contrary to Department access control procedures, the former employee's FLAIR user login and password information had been shared with the Bureau of Planning, Budget, and Financial Services, and subsequently provided by the Bureau to, and used by, another former employee assisting the Department on a volunteer basis.

The effective separation of incompatible accounting duties, prompt deactivation of access privileges upon an employee's separation from employment, and periodic and timely review of employee access privileges reduces the risk of unauthorized disclosure, modification, or destruction of Department data.

Recommendation: To aid in the identification and resolution of any instances where excess or incompatible privileges have been granted or access privileges are no longer required, we recommend that Department management enhance policies and procedures to require more frequent reviews of the appropriateness of FLAIR access privileges. We also recommend that Department management ensure that FLAIR access privileges are timely deactivated upon an employee's separation from Department employment and that FLAIR user login and password information is not shared with other employees.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the applicable findings included in our report No. 2014-181 (finding Nos. 6 through 8).

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 March 2016 through August 2016 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 of the Department of State (Department) focused on the Division of Corporations (Division), the Museum of Florida History (Museum), and selected 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, 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, finding Nos. 6 through 8 noted in our report No. 2014-181.

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:

- Obtained an understanding of selected Department information technology (IT) controls, assessed the risks related to those controls, evaluated whether selected general and application IT controls for the Corporate Filing System were in place, and tested the effectiveness of the controls.
- Reviewed applicable laws, rules, Department policies and procedures, other guidelines, and interviewed Department personnel to gain an understanding of Division document filing and fee collection processes. Specifically, we:
 - Reviewed business entity filing fee information to determine whether the fees established in State law did not result in certain registrations and filings subsidizing the administrative costs of other registrations and filings.
 - From the population of approximately 511,808 new business entity filings made during the period July 2014 through February 2016, examined Division records for 25 filings to determine whether the Division had:

- Ensured that business documents and reports filed with the Division complied with the requirements of State law and Department rules, were appropriately reviewed, and timely and accurately published on the Division's Web site, Sunbiz.org.
- Ensured that corporate filing revenues associated with new business entities were timely and properly collected, processed, deposited, and recorded in applicable Division records.
- From the population of the approximately 2 million business entities active as of April 12, 2016, and required to file an annual report, examined Division records for 25 annual report filings to determine whether the Division had:
 - Ensured that annual reports filed with the Division complied with the requirements of State law and Department rules, were appropriately reviewed, and timely and accurately published on Sunbiz.org.
 - Ensured that corporate filing fees associated with annual reports were timely and properly collected, processed, deposited, recorded in applicable Division records.
- Analyzed Corporate Filing System data for the period July 2014 through February 2016 to determine whether the Division collected late fees for late annual report submissions.
- Reviewed applicable laws, rules, Department policies and procedures, other guidelines, and interviewed Museum personnel to gain an understanding of the administration and management of the Museum of Florida History. Specifically, we:
 - From the population of 177 artifacts acquired and accessioned by the Museum during the period July 2014 through February 2016, examined Museum records for 25 selected artifacts to determine whether the Museum acquired and accessioned the artifacts in accordance with State law and Department rules.
 - From the population of 482 artifacts valued at more than \$1,000 and inventoried in 2015, examined Museum records for 25 selected artifacts to determine whether the Museum complied with Section 265.706, Florida Statutes, and Department Rule 1T-12.004, Florida Administrative Code, when conducting the inventory.
 - From the population of 477 artifacts valued at less than \$1,000 and inventoried in 2015, examined Museum records for 25 selected artifacts to determine whether the Museum complied with Section 265.706, Florida Statutes, and Department Rule 1T-12.004, Florida Administrative Code, when conducting the inventory.
 - From the population of 27 outgoing artifact loans active during the period July 2014 through February 2016, examined Museum records for 10 selected artifact loans (7 initial loans and 3 loan renewals) to determine whether, in making and administering the loans, the Museum complied with State law and Department rules.
 - From the population of 107 incoming artifact loans active during the period July 2014 through February 2016, examined Museum records for 13 selected artifact loans to determine whether, in making and administering the loans, the Museum complied with Section 265.565, Florida Statutes.
 - Examined Museum records related to the 5 artifacts deaccessioned during the period July 2014 through February 2016 to determine whether the Museum complied with State law and Department rules in deaccessioning the artifacts.
 - Evaluated, through inquiry, observation, and review of policies and procedures, the adequacy and design of Department controls for the stewardship of the Museum's collections.
 - Examined the personnel files for five Museum staff to evaluate the adequacy and sufficiency of Museum position requirements and staff qualifications.

- Evaluated Museum processes for collecting cash gifts and other donations to determine if cash gifts and donations were appropriately and timely collected, processed, deposited, and recorded in applicable Department records. Specifically, we:
 - Reviewed applicable laws, rules, and policies and procedures to gain an understanding of Museum processes for collecting cash gifts and other donations.
 - Performed inquiries of Museum personnel and observations of Museum controls to determine whether appropriate safeguarding protocols had been established over Museum cash gift and other donations collections.
 - From the population of 182 deposits of cash gifts and other donations, totaling \$46,105 and made during the period July 2014 through February 2016, examined Museum records for 25 selected deposits totaling \$23,988 to determine if the deposits were appropriately and timely collected, deposited, processed, and properly recorded in Department accounting records.
- Evaluated Department actions to correct finding Nos. 6, 7, and 8 noted in our report No. 2014-181. Specifically, we:
 - Analyzed Department property records as of February 29, 2016, to determine whether the Department timely recorded the 121 property items, totaling \$1,960,534, acquired during the period July 2014 through February 2016.
 - Evaluated selected Department application and network security controls for the Online Grants and Applications system to determine whether the Department had enhanced security controls related to user access privileges.
 - For the period July 2014 through February 2016, compared Department employee separation dates recorded in People First to purchasing card cancellation dates recorded in FLAIR for 15 cardholders to determine whether the Department timely canceled the purchasing cards upon the employees' separation from Department employment and whether any charges had been made subsequent to the employees' separation dates.
- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing Department operations.
- Observed, documented, and evaluated the effectiveness of selected Department processes and procedures for:
 - Budgetary, contracting, and purchasing activities; financial reconciliations; settlement agreements; and managing FLAIR user access privileges.
 - The assignment and use of motor vehicles. As of December 31, 2015, the Department was responsible for 24 motor vehicles with related acquisition costs totaling \$485,496.
 - The administration of Department travel in accordance with State law and other applicable guidelines. During the period July 2014 through December 2015, Department travel expenditures totaled \$269,032.
 - The assignment and use of wireless devices with related service costs totaling \$34,161 during the period July 2014 through December 2015.
- 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. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



FLORIDA DEPARTMENT *of* STATE

RICK SCOTT
Governor

KEN DETZNER
Secretary of State

March 30, 2017

Sherrill F. Norman
Auditor General
Claude Denson Pepper Building, Suite G74
111 W. Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman:

Enclosed is the Florida Department of State's response to the preliminary and tentative audit findings and recommendations pertaining to the Auditor General's audit on Division of Corporations, Museum of Florida History, and Selected Administrative Activities. If you have any questions in this regard, please call Candie Fuller, Inspector General, at 850-245-6195. Thank you for the opportunity to respond.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ken Detzner".

Ken Detzner
Secretary

Enclosure

c: Candie M. Fuller, Inspector General, FDOS
Jennifer Kennedy, Assistant Secretary of State

**R.A. Gray Building • 500 South Bronough Street • Tallahassee, Florida 32399
850.245.6500 • 850.245.6125 (Fax) • DOS.MyFlorida.com**

Department of State
Response to Preliminary and Tentative Audit Findings
Auditor General Audit
March 30, 2017

Finding 1: Corporate Filing System

The Division was unable to provide sufficient supplementary metadata necessary for an accurate understanding of the structure of, and relationships among, Corporate Filing System data files. The absence of sufficient supplementary metadata precluded a consistent and reliable analysis of the Corporate Filing System data provided by the Division.

Recommendation: We recommend that Division management continue efforts to maintain sufficient supplemental metadata necessary for an accurate understanding of the structure of, and relationships among, the Corporate Filing System data files. Sufficient supplementary metadata should be made available upon audit request to facilitate the analysis of Corporate Filing System data in connection with future audits of the System.

Department Response: The Department will work to document any deficient supplemental metadata. With the definition of Metadata being “A set of data that describes and gives information about other data” the department offers that once complete, descriptive data will be available for future audits.

Finding 2: Application Input Edits

Corporate Filing System application input edits need improvement to ensure the accuracy and validity of Corporate Filing System data.

Recommendation: We recommend that Division management enhance Corporate Filing System input controls to ensure the accuracy and validity of the System data.

Department Response: The Department will identify ways to improve/restrict data input. Examples of input controls/edits needed are to restrict special characters (e.g.- !, #, \$, *) being entered into text fields.

Finding 3: Data Processing Controls

Data processing controls related to the Corporate Filing System need enhancement to ensure that business entity transaction data is complete, accurate, and valid.

Recommendation: We recommend that Division management enhance data processing controls to ensure that business entity information is complete, accurate, and valid and that such information is provided to users of the Corporate Filing System and Sunbiz.org.

Department Response: The Department will review and enhance its data processing controls. Specifically, the sync between two databases will be improved in order to prevent data mismatches on the Corporate Filing System and Sunbiz.org.

Finding No. 4: Outgoing Loans of Museum Artifacts

The Museum did not always obtain proof of insurance for outgoing loans of artifacts as specified by Department rules.

Recommendation: We recommend that Museum management strengthen collection policies and procedures to require proof of insurance for all loans of State-owned artifacts in accordance with Department rules.

Department Response: The renewal form that was in place during the audit period stipulated the requirements of the loan which includes insurance. The Museum has updated the loan renewal form to specifically require the borrower to confirm they are still maintaining insurance.

Finding No. 5: Incoming Loans

The Museum did not always inform lenders of the existence of the provisions of the Florida Arts and Culture Act describing the obligations of the lender and the Museum and specifying the conditions pursuant to which the Museum may gain title to the lender's property.

Recommendation: We recommend that Museum management enhance collection policies and procedures to ensure that Museum records document that all lenders are informed of the provisions of the Florida Arts and Culture Act.

Department Response: The Museum's loan agreement for incoming loans includes the applicable provisions of the Florida Arts and Culture Act (Chapter 265, Florida Statutes) The Museum will make it a part of the initiating procedures to provide a copy of Chapter 265, Florida Statutes to lenders who use their own loan agreement. Documentation confirming notification to the lender will be placed in the loan file.

Finding No. 6: Collection Safeguards

Museum controls were not always sufficient to effectively safeguard moneys collected.

Recommendation: We recommend that Museum management enhance policies and procedures to provide for appropriate collection controls. Such policies and procedures should require that checks be restrictively endorsed and logged at the point and time of receipt, all transfers of collections between employees be documented, and all checks be timely deposited in accordance with a specified time frame.

Department Response: The Museum has updated the policies and procedures for its citizen support organization's (CSO) collection process. Previously, the Museum logged receipt and deposit of money and restrictively endorsed checks prior to deposit. The new procedures require

that each step from receipt to deposit is logged and the checks are restrictively endorsed upon receipt. Additionally, the procedures were updated to specify a timeframe for deposit.

Finding No. 7: Property Controls

As similarly noted in our report No. 2014-181, the Department did not always timely record property acquisitions to Department property records.

Recommendation: We again recommend that Department management enhance procedures to ensure that Department property records are timely updated for property acquisitions.

Department Response: The Department will update procedures to ensure property records are recorded timely and accurately. The Department will review the existing policies, and modify as necessary, to more clearly define attractive items. The attractive items were the majority of items noted in the audit and are not technically “property” as defined by Chapter 273, Florida Statutes and Rule 69I-72.002, but were included in property records.

Finding No. 8: FLAIR Access Controls

Department controls over employee access to the Florida Accounting Information Resource Subsystem need improvement to reduce the risk of unauthorized disclosure, modification, or destruction of Department data.

Recommendation: To aid in the identification and resolution of any instances where excess or incompatible privileges have been granted or access privileges are no longer required, we recommend that Department management enhance policies and procedures to require more frequent reviews of the appropriateness of FLAIR access privileges. We also recommend that Department management ensure that FLAIR access privileges are timely deactivated upon an employee’s separation from Department employment and that FLAIR user login and password information is not shared with other employees.

Department Response: The Department concurs that FLAIR system privileges must be timely removed upon an employee’s separation from a position. Division management will update policies and procedures and continue to reinforce security requirements associated with FLAIR access and work to ensure compliance with same.