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STATE OF FLORIDA

REPORT IA-14-501A

DIVISION OF REHABILITATION AND LIQUIDATION – DISBURSEMENT AND RECEIPTING PROCESSES

Department of Financial Services

Audit performed by the Office of Inspector General to evaluate whether internal controls over the Division of Rehabilitation and Liquidation's disbursement and receipting processes are adequate and operating effectively

A handwritten signature in blue ink that reads "Teresa Michael".

Teresa Michael, Inspector General
Office of Inspector General
Department of Financial Services

October 5, 2015



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EXECUTIVE SUMMARY

At the request of the Florida Department of Financial Services' Division of Rehabilitation and Liquidation (Division or DRL), the Office of Inspector General (OIG) performed an operational audit of DRL's disbursement and receipting processes. The DRL serves as the court-appointed Receiver for insurers placed into receivership pursuant to Chapter 631, Florida Statutes. This report provides the results of that audit.

Our audit revealed the following:

- ❖ Certain staff duties related to the disbursement and receipting processes were not appropriately segregated to result in effective internal controls.
- ❖ The adequacy and effectiveness of DRL's internal controls related to its receipting processes need to be strengthened to ensure that receipts are properly safeguarded and accurately recorded in the accounting records.
- ❖ Internal controls related to DRL's blank check stock did not sufficiently ensure that the check stock was properly safeguarded.
- ❖ The procedures used to process DRL-issued checks, which are subsequently returned to DRL, were not sufficient to ensure that the checks were adequately safeguarded.
- ❖ Procedures related to maintenance of bank signature authorities were not adequate to ensure that signature authorities were timely and properly updated.

Accordingly, we recommend that DRL take the following actions:

- ❖ The DRL should review the Position Descriptions of all staff to ensure that they are current and that duties are assigned in a manner to reflect an appropriate segregation of duties. The DRL should consider centralizing its cash receipting function in Tallahassee and directing all payments to the Tallahassee office. Given the limited staffing in Miami, this may result in improved controls over DRL's receipting processes and increased efficiency in the Miami office since staff currently performing receipting functions will be able to focus their time on their core duties. Consideration should also be given to removing vendor/contract set-up functions from the Accounting Section. Alternatively, DRL could implement compensating controls such as a periodic review of the vendor file by an independent party.
- ❖ The DRL should revise its existing cash receipting and related policies and procedures to enhance controls designed to safeguard cash receipts, including those receipts subsequently returned to the sender. The DRL should undertake activities to increase staff awareness regarding internal controls and review its cash receipting processes in an effort to reduce the time it takes to deposit checks. In addition, controls should be strengthened to ensure that all receipts are properly and timely dispositioned (i.e., either deposited or returned to the sender), and that dispositions are accurately reflected in the cash receipts log. The cash receipts log should be routinely reconciled to ensure that discrepancies are timely and properly identified and resolved.
- ❖ The DRL should enhance its policies and procedures to more effectively ensure that access to its blank check stock is properly restricted and the check stock is safeguarded. Additionally, DRL should consider ordering check stock that has an "inventory" number pre-printed on the back of the check. Having such blank check stock and requiring the key

log to denote how many blank checks are removed by a certain person, at a certain time, lends itself to periodic blank check stock reconciliations that would provide another means to safeguard this asset and discourage fraud.

- ❖ The DRL should enhance its written policies and procedures to address DRL-issued checks, which are subsequently returned to DRL. Current procedures should be strengthened by requiring: 1) a periodic supervisory review and approval of the Returned Check Log; 2) a periodic reconciliation of the signed General Services Logs with the Returned Check Log and the physical copies of the voided checks by a person independent of the returned check process; 3) that returned checks be promptly voided in the accounting system upon receipt; and 4) that adequate documentation be maintained for an appropriate period of time.
- ❖ The DRL should enhance its policies and procedures to ensure that bank signature authorities are timely and properly removed and pertinent DRL staff is timely notified of the changes.

ACKNOWLEDGEMENTS

The OIG would like to thank the management and staff of DRL for their input, cooperation and assistance throughout the performance of this audit. We appreciate the time spent gathering and providing documentation, participating in interviews and responding to our many inquiries. We also appreciate the courtesy extended to us by the Miami office during our observation of its security practices.

BACKGROUND

The DRL coordinates and directs the conservation, rehabilitation and liquidation of insolvent or otherwise delinquent¹ insurance companies pursuant to Chapter 631, Florida Statutes.

Florida's insurance companies are regulated by the Office of Insurance Regulation (OIR). When an insurer fails to maintain the required surplus or certain other delinquency conditions are noted, OIR undertakes regulatory actions in an effort to remediate the issue. If those actions are unsuccessful, and as a last resort, OIR may recommend that DRL initiate a receivership proceeding. Upon such a recommendation, DRL will petition the Second Judicial Circuit Court in Leon County (the Court) to be appointed as Receiver for the insurance company. The Court oversees the actions of DRL (in its capacity as Receiver), makes decisions related to matters presented to the Court, and approves distributions to claimants and certain other actions, including discharge of the receivership estate.

As Receiver, DRL's duties vary according to the type of receivership. Its major duties in a rehabilitation and liquidation are:

¹ Grounds for delinquency are numerous and may include insolvency, impairment of assets, criminal activity or fraudulent transactions, excessive market conduct violations, etc. See also Sections 631.051, 631.061, 631.071 and 631.081, Florida Statutes.

Major Duties

Rehabilitation

- ✓ Take control of and protect the property and assets of the insurer
- ✓ Conduct the business of the insurer
- ✓ Formulate a plan to remove the causes and conditions necessitating the rehabilitation

Liquidation

- ✓ Close the insurance company
- ✓ Cancel outstanding insurance policies
- ✓ Marshal and liquidate the company's assets
- ✓ Identify claims and distribute assets to claimants
- ✓ Respond to consumer inquiries

The DRL employs approximately 100 staff and maintains offices in Tallahassee and Miami. The majority of staff is located in Tallahassee; staff in Miami primarily performs an auxiliary collections function as a part of the Asset Recovery and Management Section of DRL. Various contractors are also engaged by DRL to assist it in meeting its receivership responsibilities.

The DRL functioned as Receiver for 39 and 41 insurers for the fiscal years ending June 30, 2014 and 2015, respectively. Recoveries, excluding those from litigation, exceeded \$31 million for each of those fiscal years. In addition, the DRL disbursed over \$21 million² to claimants in each of those fiscal years.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Certain Staff Duties Related to the Disbursement and Receipting Processes Were Not Appropriately Segregated to Result in Effective Internal Controls.

The basic concept of a proper segregation of duties as an internal control involves ensuring that incompatible duties (i.e., authorization, recordkeeping and custody) are not performed by the same employee. For larger organizations, the concept can be applied entity-wide, in that incompatible functions would not be performed within the same organizational section.

In reviewing the duties of DRL staff with primary or backup disbursement or receipting duties, we noted the following:

- a. With respect to cash receipting processes, the duties for 1 of 15 positions did not indicate an appropriate segregation of duties. The Miami office Operations Manager has significant responsibilities for the cash receipting process and maintains certain accounts receivables logs. These duties are incompatible since physical receipts could be misappropriated and the accounts receivable records subsequently altered to conceal the theft. It is noted that

² This does not include disbursements DRL made to the various guaranty associations. Guaranty associations protect consumers by amassing a pool of money from insurers within the state to assist in paying out policyholders in the event an insurer fails.

the Miami office has limited staff that could appropriately be assigned cash receipting duties; therefore, it is a challenge to maintain an appropriate segregation of duties. In addition, the Miami office experienced some level of turnover of individuals involved in the receipting process during the audit period.

- b. With respect to disbursement processes, the duties for 3 of 13 positions did not indicate an appropriate segregation of duties, as follows:
 - 1) One employee (Controller/Accounting Director) was able to disburse funds via wire transfer, authorize disbursements, maintain the general ledger, and maintain the vendor master files. Another employee (Accounting Supervisor) was able to approve invoices for payment, install contracts within the accounting system, assign contract numbers, and maintain the vendor master files. The ability of these two employees to maintain the vendor master file and/or install contracts within the accounting system in conjunction with their other duties provides an opportunity for a number of disbursement frauds such as the creation of a fictitious vendor, kickback schemes, etc.
 - 2) One employee (Accountant – Position RE045) was able to print checks, as well as review and approve checks before and after signatures were obtained. Accordingly, the employee had the ability to approve checks that she had processed.

Recommendation: We recommend that DRL review the Position Descriptions of all staff to ensure that they are current and that duties are assigned in a manner to reflect an appropriate segregation of duties. The DRL should consider centralizing its cash receipting function in Tallahassee and directing all payments to the Tallahassee office. Given the limited staffing in Miami, this may result in improved controls over DRL's receipting processes and increased efficiency in the Miami office since staff currently performing receipting functions will be able to focus their time on their core duties. Consideration should also be given to removing vendor/contract set-up functions from the Accounting Section. Alternatively, DRL could implement compensating controls such as a periodic review of the vendor file by an independent party.

Finding No. 2: The Adequacy and Effectiveness of the Division's Internal Controls Related to its Receipting Process Need Strengthening to Ensure that Receipts are Properly Safeguarded and Accurately Recorded in the Accounting Records.

Cash (currency, coin, checks, money orders, etc.) is an organization's most liquid asset; therefore, adequate and effective internal controls to safeguard and prevent theft or other misuses of cash must be in place and operating as intended. Consistent with DRL Policy R1-6 *Internal Controls Policy*, DRL implemented a number of internal controls to safeguard its receipts and ensure their accurate recording. These controls are embodied in, and communicated to staff, through DRL's written policies and procedures. Key controls over the receipting process include: dual processing (e.g., retrieval and opening of mail by two employees); transfer of custody forms (e.g., signed check receipts log); and independent verification/reconciliation by an individual not involved in the mail processing or deposit process.

During the audit period, DRL received approximately 3,851 physical receipts³ totaling \$14,260,826 in its Tallahassee and Miami offices. From their arrival until the time they are deposited, DRL's physical receipts are kept in various locations. Due to afternoon mail deliveries and precautions taken to ensure that checks with restrictive terms are not deposited, the majority of receipts are not deposited the day they are received. However, 99% of receipts are deposited within three business days. This lag in deposit time increases the need for strong controls to ensure that the receipts are safeguarded.

In reviewing the adequacy and effectiveness of DRL's controls intended to safeguard its physical receipts and ensure that they are timely and properly recorded in the accounting records, we noted the following weaknesses:

Safeguarding of Receipts

- a. While each of the locations used to store physical receipts from their arrival to the time they are deposited is secured through locking mechanisms, none of the keys to these locks are imprinted with a "Do Not Duplicate" notation.
- b. Checks are not restrictively endorsed immediately upon receipt. Instead, checks are restrictively endorsed upon deposit (using a Remote Deposit system), which usually occurs after a significant time delay.
- c. The key to General Services' locking desk drawer, which is used to store receipts until they are picked up by Accounting, is not adequately safeguarded, nor is access to the key appropriately restricted. The key is kept in the mailroom and accessible to six General Services employees and two Information Technology Services employees.
- d. In Tallahassee, physical receipts received through the mailroom are stored for an extended period each day in an unlocked desk drawer in General Services until they are picked up by Accounting. In Miami, receipts are stored for an extended period of time in an unlocked desk drawer at the workstation of the Account Analyst II, who is the first point of contact upon entering the office suite.
- e. During our observation of the Miami office, cash receipts were left unsecured on the counter at the workstation of the Account Analyst II while she was absent from the workstation attending to an unrelated issue.
- f. The key safe located in the Director of Administrative Services' office,⁴ is accessible to the Director of Administrative Services, as well as three other General Services employees, one of whom did not undergo a criminal background screening. This access provides the means for these individuals, although they are not authorized or have a business need, to access the Accounting Services drop safe used to store receipts and checks issued by Accounting, the locking cabinet used to store the blank check stock, the locking bank bag used to make

³ Physical receipts do not include wire transfers, credit card receipts and ACH transactions.

⁴ The key safe is used to store a master key, one of the two keys needed to open the General Services drop safe, and duplicate copies of the keys to all of DRL's furniture (desks, cabinets, cubicles, etc.).

deposits, and the General Services drop safe used to store checks until they are picked up by Accounting.

- g. Neither General Services nor Accounting implemented adequate key logs that reflected not only who had been assigned a key, but the date it was assigned, the employee's signature acknowledging responsibility for the key, the employee's termination date, the date the key was returned and the date on which the applicable locks were changed. In addition, the Accounting Services' key log was not properly maintained, in that it did not reflect all individuals who had been provided keys, as required by DRL Policy R3-8.1 *Security Functions*.
- h. Certain staff involved in the receipting process performs established procedures without a sufficient understanding of the purpose of the procedures, which compromises the effectiveness of the controls. For example, in Tallahassee, General Services ensured that two employees were present in the mailroom when the mail was being opened. However, during two observations of the Tallahassee office, we observed that for the majority of the process, one of the employees had their back turned to the employee opening the mail. During our observation of the Miami office, checks were not recorded in the cash receipts log in the presence of two employees. In addition, when the checks were transferred from one employee to the next, the checks and the cash receipts log were not verified by both employees prior to the transfer of custody of the checks.
- i. In the Tallahassee office, transfer of custody of the daily receipts from General Services to Accounting is evidenced by verification of, and signature on, the completed General Services daily cash receipts log by both General Services and the Accounting Section. Once the Accounting Section assumes custody of the daily receipts and initials the General Services Check Log, the Accounting Section takes the original signed Log. General Services does not maintain a copy of the dual signed Log. This limits DRL's ability to verify the accuracy of the cash receipts log maintained by the Accounting Section and creates the potential that a check could be misappropriated after the receipts are provided to the Accounting Section.
- j. Checks not deposited at the end of the day in the Miami office are stored in a drop safe, which can only be opened by the simultaneous use of two separate keys. Custody of these keys is assigned to different staff in a manner to ensure a proper segregation of duties. During our observation, an employee accessed the safe by herself to retrieve a check. This was accomplished by obtaining the second key from one of its holders instead of having the holder open the safe with her.
- k. Both the Tallahassee and Miami offices maintain policies regarding the processing of cash receipts and mailroom activities.⁵ Miami Policies R12-14 and R12-15 are not sufficient to ensure that cash receipts are properly safeguarded and a proper segregation of duties in the receipting process is maintained. For example, Miami Policies R12-14 and R12-15 do not specifically identify the positions responsible for the major cash receipting tasks. The assignment of tasks to designated positions is vital to ensuring a proper segregation of

⁵DRL Policy R3-6.6 *Cash and Charge Receipts – Tallahassee Office*; R12-15 *Cash and Charge Receipts – Miami Office*; R4-02 *Mailroom Functions*; and R12-14 *Mailroom Functions – Miami Office*

duties. In addition, Policy R12-15 does not require that mail (which often contains checks) be received, opened and logged in the presence of two employees.

- l. While DRL Policies R3-6.6 and R12-15 require a reconciliation of the cash receipts log and the deposit slips on at least a weekly basis, no documentation was provided to evidence that the reconciliations were being performed. In addition, based on errors and omissions noted on the cash receipts log (see Finding No. 2.r. below), if the reconciliations were being performed, the reconciliations were not effectively performed to ensure the accuracy and completeness of the log.
- m. During the audit period, DRL received approximately 123 checks totaling \$108,940, which were subsequently returned to the sender.⁶ The DRL does not maintain written policies or procedures addressing this process. In addition, sufficient documentation was not always maintained to evidence that checks had been returned to the sender. For example, in some instances, a copy of the check with a hand-written notation that the check had been returned to the sender was the only documentation maintained.

Timely and Accurate Recording of Receipts

- n. For 4 of 36 physical receipts tested, the receipt date or check number was not accurately recorded on the cash receipts log.
- o. For 3 of 43 receipts, the transaction date (which reflects the date of deposit) recorded in DRL's accounting system, MS Dynamics, was not accurately recorded.
- p. For 14 of 43 receipts, the transaction was not timely recorded (within five business days of receipt) in the cash receipts module of MS Dynamics.
- q. While the Tallahassee cash receipts policy⁷ requires that receipts be approved by a supervisory staff prior to being deposited, there is no similar requirement in the Miami cash receipts policy.⁸ In addition, for the Miami office, there was no documentation to evidence that receipts were approved for deposit prior to the check actually being deposited. This is due to the limited staff in the Miami office.
- r. In reviewing the cash receipts log for the period July 1, 2013 to June 30, 2014, we noted 42 instances where the cash receipt did not reflect either a deposit date or return to sender date. While deposit audits are required to be performed by the Administrative Assistant III to verify the accuracy of recorded amounts and deposits over three days, there is no indication that the audit included a review for items which have not yet been resolved. A periodic review and reconciliation of the cash receipts log should be conducted as a part of the monthly closing process to ensure that all items are properly and timely addressed.

⁶ When DRL is appointed as receiver for an insurer, the insurer's mail is typically redirected to DRL. This, and other circumstances such as restrictive endorsements, sometimes necessitates that DRL return a check to the sender or forward it to another entity.

⁷ DRL Policy R3-6.6 *Cash and Charge Receipts – Tallahassee Office*

⁸ DRL Policy R12-15 *Cash and Charge Receipts – Miami Office*

Failure to implement adequate controls over the cash receipting process increases the risk that receipts could be misappropriated and escape notice. In addition, financial statements and reports may be inaccurate and, thereby, compromise the integrity of financial data and DRL's ability to make sound financial decisions.

Recommendation: We recommend that DRL revise its existing cash receipting and related policies and procedures to enhance controls designed to safeguard cash receipts, including those receipts subsequently returned to the sender. The DRL should undertake activities to increase staff awareness regarding internal controls and review its cash receipting processes in an effort to reduce the time it takes to deposit checks. The DRL may recognize efficiencies and improved internal controls by transferring Miami's cash receipting function to the Tallahassee office. In addition, controls should be strengthened to ensure that all receipts are properly and timely dispositioned (i.e., either deposited or returned to the sender), and that dispositions are accurately reflected in the cash receipts log. The cash receipts log should be routinely reconciled to ensure that discrepancies are timely and properly identified and resolved.

Finding No. 3: Internal Controls Related to DRL's Blank Check Stock Did Not Sufficiently Ensure That The Check Stock Was Properly Safeguarded.

During the audit period, DRL utilized approximately 34 bank accounts. The majority of the accounts (26) were investment and distribution accounts established for receivership funds. Given the transitory nature of the distribution accounts, as well as the number of disbursement-type accounts, DRL used blank check stock.

This check stock is not pre-numbered, preprinted with the name and address of the Division, nor the applicable banking/MICR information. Additionally, there is no preprinted control number on the back of each check that can be used for inventory purposes. While the use of blank check stock is cost-effective and more efficient than preprinted stock, it is also more risky and necessitates stronger internal controls over the disbursement process. This risk is further increased by DRL's use of digital signatures on checks of \$5,000 or less, as well as its practice of printing checks as invoices become approved for payment, versus utilizing regularly scheduled check runs.

In reviewing controls over the blank check stock, we noted the following:

- a. The "Possession of Key to Accounts Payable Check Cabinet" log, which is used to record the issuance and return of the key to the cabinet where the checks are stored (the A/P Check Cabinet), is not sufficiently designed, nor effectively used, to control access to the blank check stock. While the log provides for the recording of the date the key was checked in and out as well as the initials of the individuals who issued/received the key, it does not capture the time the key was issued and returned, nor the amount of check stock taken. Additionally, although the log provides for the name and initials of the supervisor⁹ issuing the key, these fields were not routinely utilized. Accordingly, there is limited accountability over access to the A/P Check Cabinet and usage of the blank check stock.

⁹ The Accounts Payable Supervisor, the back-up Accounts Payable Supervisor or the Controller.

Since one of the Accounts Payable Accountants, who is also capable of printing checks, is the designated back-up Accounts Payable Supervisor, documenting the person issuing the key becomes more relevant for ensuring the proper safeguarding of the blank check stock.

- b. The A/P Check Cabinet is located in a common area within the Accounting and Asset Recovery suite of offices. The Accounts Payable Accountants and Analysts are able to access the cabinet, and remove check stock, unsupervised. Accordingly, current processes limit DRL's ability to ensure that the check stock is adequately safeguarded.

Failure to ensure adequate controls over the check stock increases the risk that assets may be misappropriated.

Recommendation: The DRL should enhance its policies and procedures to more effectively ensure that access to its blank check stock is properly restricted and the check stock is safeguarded. Additionally, the DRL should consider ordering check stock that has an "inventory" number pre-printed on the back of the check. Having such blank check stock and requiring the key log to denote how many blank checks are removed by a certain person, at a certain time, lends itself to periodic blank check stock reconciliations that would provide another means to safeguard this asset and discourage fraud.

Finding No. 4: The Procedures Utilized to Process DRL-Issued Checks, Which Are Subsequently Returned to DRL, Were Not Sufficient to Ensure That The Checks Were Adequately Safeguarded.

During the audit period, DRL issued approximately 1,126 checks totaling \$530,140, which were subsequently returned to DRL, primarily due to insufficient addresses. These checks are recorded in the "Disbursement Return Check Log" (Returned Check Log). The checks are provided to the Account Analyst II in the Accounts Payable section who is responsible for maintaining the Returned Check Log to reflect the disposition of the returned checks and coordinating efforts to research, process, and dispose of the checks. The Claims Section and the Estate Accounting Unit are also responsible for researching certain returned checks.

In reviewing DRL's procedures, we noted that DRL does not maintain adequate written policies or procedures related to the processing of the returned checks once they are delivered to the Account Analyst II. In addition, internal controls were deficient, as noted by the following:

- a. There was no documentation to evidence that the Returned Check Log undergoes a periodic supervisory review and approval process. When reviewing the Returned Check Log applicable to the audit period, we noted numerous errors or omissions on the log such as: missing, broken or incorrect hyperlinks to supporting documentation; dates placed within both the "Void" and "Remailed" columns for the same check; incorrect check numbers, payee names, or the name of the related receivership; etc.

- b. Returned checks are routinely given to Estate Accounting, the Claims Section or other individuals to research. However, the Account Analyst II does not, and current procedures do not require, the Account Analyst II to follow-up with these individuals to ensure that the returned checks are properly dispositioned. In addition, no one performs, and current procedures do not require, a reconciliation between the Returned Check Log and the "Distribution Check Tracking" log (used to track checks given to the Claims Section to research) maintained by the Claims Section, the Bureau of Unclaimed Property Listing or the records maintained by Estate Accounting or others. As a result, it was not possible to readily determine whether all checks were timely or properly dispositioned.
- c. Per DRL policy,¹⁰ distribution checks over \$500 (which are returned to DRL without a better address noted on the returned letter) are to be provided to the Claims Section to be researched in an effort to identify a better address. In reviewing the Returned Check Log, we noted approximately 62 checks totaling \$201,410 that met this criteria; however, there was no indication on the Returned Check Log that the checks had been provided to the Claims Section for research. Further, the checks were not included within the Claims Section's Distribution Check Tracking log, which is used to track checks given to the Claims Section to research.

Failure to establish written policies and procedures for significant operational processes limits DRL's ability to ensure that requirements related to a given process are communicated to its staff. Insufficient internal controls hinders DRL's ability to timely identify and rectify errors within the Returned Check Log and ensure that checks are timely reissued to the intended recipient. In addition, the absence of a periodic reconciliation of the Returned Check Log increases the risks that assets are misappropriated, data is incorrectly reported, and claimants do not receive funds to which they are entitled.

Recommendation: The DRL should enhance its written policies and procedures to address DRL-issued checks, which are subsequently returned to DRL. Current procedures should be strengthened by requiring: 1) a periodic supervisory review and approval of the Returned Check Log; 2) a periodic reconciliation of the signed General Services Logs with the Returned Check Log and the physical copies of the voided checks by a person independent of the returned check process; 3) that returned checks be promptly voided in the accounting system upon receipt; and 4) that adequate documentation be maintained for an appropriate period of time.

Finding No. 5: Procedures Related to Maintenance of Bank Signature Authorities Were Not Adequate to Ensure that Signature Authorities Were Timely and Properly Updated.

As noted in Finding No. 4 above, DRL utilized an extensive number of bank accounts which are transitory in nature. As a result, accounts are opened and closed frequently, which necessitates that bank signature authorities be updated. The DRL Policy R3-4.2 *Expenditures* requires certain specified employees to review signed checks prior to issuance to verify, among other matters, that

¹⁰ Section VI.C. of Policy R6-12 *Claims Distributions*

they contain an authorized signature. To ensure that staff is apprised of the current signature authorities, DRL uses the "Check Signature Pool" document, which is a list of all bank accounts and the authorized signers for each account. Section VI.B.2. of DRL Policy R3-1.1 *Relationship with Financial Institutions* requires DRL to promptly update bank signature cards due to any change in authorized signers.

In testing DRL's management of signature authorities for its bank accounts, we noted the following:

- a. For two employees that separated employment from DRL, DRL did not timely request that the bank remove the employees' signature authority on the applicable bank accounts. The requests were submitted to the bank 15 and 29 business days after the employees separated employment.
- b. For one employee that separated employment from DRL, the Check Signature Pool was not timely updated to reflect the removal of signature authority for the separated employee. The Check Signature Pool was updated 17 business days after the employee separated employment.
- c. For five distribution accounts tested, the Check Signature Pool was not timely updated to reflect the account closures. Updates to the Check Signature Pool ranged from 10 to 28 business days after the requested bank account closure date for these accounts. In addition, none of the five accounts were closed by the bank on the requested closure date and the actual account closure dates ranged from 4 to 30 business days after the requested closure date. While the bank's delay in timely closing an account is not within DRL's control, this delay increases the need for DRL to timely update the Check Signature Pool.

Failure to timely and properly update signature authorities increases the risk that checks without the proper signatures or unauthorized checks may be issued and subsequently negotiated. In addition, this failure may result in increased costs due to inefficiency (e.g., reprinting checks) and waste of the check stock.

Recommendation: The DRL should enhance its policies and procedures to ensure that bank signature authorities are timely and properly removed and pertinent DRL staff is timely notified of the changes.

MANAGEMENT'S RESPONSE

The DRL management concurred with all findings and recommendations. Management's response to the audit is attached hereto as Appendix A. The OIG agrees with the response.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives & Scope

The overall objectives of this audit were to evaluate whether the internal controls over DRL's disbursement and receipting processes are adequate and operating effectively to ensure DRL's

resources are properly safeguarded and the accounting records are accurate. The scope of the audit covered the period July 1, 2013 to June 30, 2014, and select transactions through December 31, 2014.

Methodology

This operational audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors. 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.

To accomplish our objectives, we reviewed relevant state laws and rules and independent audits of DRL's operations. In addition, we reviewed the following DRL documentation: internal policies and procedures; the results of risk assessments; performance metrics, SWOT analyses and strategic plans; operating budgets; the 2013 and 2014 Annual Reports; organizational charts; and contracts and expenditures relative to the audit period. We also reviewed staff position descriptions, employee background screenings and employee files; various accounting logs; cash receipt documentation, bank deposit slips, bank account reconciliations, bank statements and other bank information; purchase orders, contracts, vendor information, and voucher packages; pre-allocation detail general ledger reports; credit card statements; returned check logs; and other related documentation.

Within DRL, we interviewed the Division Director, Deputy Receivers, the Controller, senior management and other staff involved with DRL's disbursements and receipting processes in order to gain an understanding of those processes and staff duties, as well as any challenges faced by DRL.

We observed the receipting process and physical safeguards over the receipting process at both the Tallahassee and Miami offices to determine the effectiveness of DRL's internal controls.

Our testing, among other procedures, also included:

- Reviewing 28 position descriptions of employees with responsibilities related to the Division's disbursement and receipting processes to verify duties and determine whether duties were appropriately segregated.
- Reviewing 15 personnel files of employees involved in the receipting process to determine whether there was evidence of appropriate background screening results.
- Sampling 36 receipts and 12 incoming wire transfers to determine whether they were deposited in a timely manner and recorded accurately within the accounting records.
- Reviewing the cash receipts logs maintained during the audit period for both Tallahassee and Miami to identify any checks not deposited within three business days from receipt and the adequacy of the deposit reconciliations performed by the Administrative Assistant III.
- Sampling six bank reconciliations to determine whether the reconciliations were accurately completed in a timely manner and that a proper segregation of duties existed.
- Reviewing changes in bank signature authority for six bank accounts and four separated employees.

- Sampling 60 expenditures made during the audit period to determine whether the expenditures were authorized, appropriately documented and accurately reflected in DRL's accounting records in a timely manner.
- Sampling 20 pre-allocation detail general ledger reconciliations to determine the adequacy and effectiveness of the reconciliation process.
- Reviewing four monthly credit card statements for unusual or questionable transactions.
- Reviewing DRL's process to address DRL-issued checks subsequently returned to DRL.
- Sending 14 negative confirmation letters to entities to verify that checks sent to DRL by the entity were returned to the entity by DRL.

Management's Responsibility for Internal Controls

In accordance with Department Administrative Policy and Procedures 1-02 *Internal Controls Policy*, the Department, among its divisions, shall establish and maintain a system of internal controls. The internal controls are management driven and designed to provide reasonable assurance that objectives are achieved. Accordingly, Department management is responsible for establishing and maintaining adequate internal controls to ensure that assets are adequately safeguarded and the accounting records are accurate in regards to DRL's disbursement and receipting processes. The OIG's responsibility is to evaluate the adequacy and effectiveness of DRL's internal controls in relation to its disbursement and receipting processes.

Inherent Limitations in Any System of Internal Controls

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in DRL's internal controls over its disbursement and receipting processes to ensure that assets are adequately safeguarded and the accounting records are accurate.

DISTRIBUTION LIST

Jeff Atwater, Chief Financial Officer

Robert Kneip, Chief of Staff

Drew Parker, General Counsel

Toma Wilkerson, Director, Division of Rehabilitation and Liquidation

Sherrill F. Norman, Auditor General

To promote accountability, integrity, and efficiency in state government, the Office of Inspector General completes audits and reviews of Department of Financial Services programs, activities, and functions.

Pursuant to section 20.055, Florida Statutes, this audit was conducted in accordance with applicable standards contained in the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors, Inc., and *Principles and Standards for Offices of Inspectors General* published by the Association of Inspectors General. This audit was conducted by Angela Begault, C.P.A., Lead Senior Auditor, under the supervision of Leah Gardner, C.P.A., Director of Audit.

Please address inquiries regarding this report to the DFS Office of Inspector General at 850-413-3112.

APPENDIX A



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

October 2, 2015

Ms. Teresa Michael, Inspector General
Office of Inspector General
Department of Financial Services
111 West Madison Street
Tallahassee, FL 32399

RE: Preliminary & Tentative Audit Findings for Operational Audit of Disbursement and Receipting Processes

Dear Ms. Michael,

We have reviewed the September 8, 2015, Preliminary & Tentative Audit Findings related to the operational audit of our disbursement and receipting processes for the Division of Rehabilitation and Liquidation ("Division"). In accordance with the your instructions and Section 20.055(6)(d), Florida Statutes, we are enclosing a statement of explanation and proposed corrective action for each finding.

Improving our process is essential to our organization's success and advancement. Additionally, we believe that strengthening our processes will enhance our service to the public. We appreciate the recommendations and we look forward to implementing the changes.

Please contact me if you have any questions related to our response or with our implementation of corrective measures.

Sincerely,

A handwritten signature in blue ink that reads "Toma L. Wilkerson".

Toma L. Wilkerson

cc: Drew Parker, General Counsel, DFS

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF REHABILITATION AND LIQUIDATION
DISBURSEMENT AND RECEIPTING PROCESSES

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 1: Segregation of Duties

Certain staff duties related to the disbursement and receipting processes were not appropriately segregated to result in effective internal controls.

Recommendation: We recommend that DRL review the Position Descriptions of all staff to ensure that they are current and that duties are assigned in a manner to reflect an appropriate segregation of duties. The DRL should consider centralizing its cash receipting function in Tallahassee and directing all payments to the Tallahassee office. Given the limited staffing in Miami, this may result in improved controls over DRL's receipting processes and increased efficiency in the Miami office since staff currently performing receipting functions will be able to focus their time on their core duties. Consideration should also be given to removing vendor/contract set-up functions from the Accounting Section. Alternatively, DRL could implement compensating controls such as a periodic review of the vendor file by an independent party.

Response: We agree with the recommendations and will review Position Descriptions of staff to ensure segregation of duties, analyze centralization of cash receipting functions to Tallahassee and implement compensating controls for vendor/contract setup functions.

Expected Completion Date for Corrective Action: The review of position descriptions and implementation of compensating controls for vendor/contract setup should be completed by March 31, 2016. DRL will develop and implement a plan to centralize cash functions to Tallahassee June 30, 2016.

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF REHABILITATION AND LIQUIDATION
DISBURSEMENT AND RECEIPTING PROCESSES

Finding No. 2: Internal Controls Related to Receipting Processes

The adequacy and effectiveness of the Division's internal controls related to its receipting process need strengthening to ensure that receipts are properly safeguarded and accurately recorded in the accounting records.

Recommendation: We recommend that DRL revise its existing cash receipting and related policies and procedures to enhance controls designed to safeguard cash receipts, including those receipts subsequently returned to the sender. The DRL should undertake activities to increase staff awareness regarding internal controls and review its cash receipting processes in an effort to reduce the time it takes to deposit checks. The DRL may recognize efficiencies and improved internal controls by transferring Miami's cash receipting function to the Tallahassee office. In addition, controls should be strengthened to ensure proper and timely disposition of all receipts (i.e., either deposited or returned to the sender), and that the disposition is accurately reflected in the cash receipts log. The cash receipts log should be routinely reconciled to ensure that discrepancies are timely and properly identified and resolved.

Response: The DRL will revise its cash receipting and related policies and procedures taking steps to enhance controls which will include but not be limited to:

1. Safeguarding of keys
2. Restricting endorsement of all cash receipts upon receipt
3. Centralizing cash functions to Tallahassee
4. Reviewing and revising policies and procedures related to safeguarding of assets
5. Revising policies and procedures to strengthen DRL's process for handling checks that are subsequently returned to DRL.
6. Reconciling and review of check logs

In addition, training will be developed for staff in cash handling positions to increase awareness of internal controls.

Expected Completion Date for Corrective Action: June 30, 2016

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF REHABILITATION AND LIQUIDATION
DISBURSEMENT AND RECEIPTING PROCESSES

Finding No. 3: Internal Controls Related to DRL's Blank Check Stock

Internal controls related to DRL's blank check stock did not sufficiently ensure that the check stock was properly safeguarded.

Recommendation: The DRL should enhance its policies and procedures to more effectively ensure that access to its blank check stock is properly restricted and the check stock is safeguarded. Additionally, the DRL should consider ordering check stock that has an "inventory" number pre-printed on the back of the check. Having such blank check stock and requiring the key log to denote how many blank checks are removed by a certain person, at a certain time, lends itself to periodic blank check stock reconciliations that would provide another means to safeguard this asset and discourage fraud.

Response: As to the recommendations regarding safeguarding of blank check, the DRL's Accounting section will restrict access to blank check stock and enhance the log to denote the amount of stock issued, to whom and when. At such time that current check stock requires replenishment, the DRL will analyze the cost/benefit associated with pre-printed "inventory" numbers and consider replacement.

Expected Completion Date for Corrective Action:

Enhanced blank check stock controls - December 31, 2015.

Analysis of incremental costs related to blank check stock with preprinted "inventory" number – March 31, 2016.

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF REHABILITATION AND LIQUIDATION
DISBURSEMENT AND RECEIPTING PROCESSES

Finding No. 4: DRL-Issued Checks Which Are Subsequently Returned to DRL

The procedures utilized to process DRL-issued checks, which are subsequently returned to DRL, were not sufficient to ensure that the checks were adequately safeguarded.

Recommendation: The DRL should enhance its written policies and procedures to address DRL-issued checks, which are subsequently returned to DRL. Current procedures should be strengthened by requiring: 1) a periodic supervisory review and approval of the Returned Check Log; 2) a periodic reconciliation of the signed General Services Logs with the Returned Check Log and the physical copies of the voided checks by a person independent of the returned check process; 3) that returned checks be promptly voided in the accounting system upon receipt; and 4) that adequate documentation be maintained for an appropriate period of time.

Response: We agree with the recommendation to review and modify our current written policies and procedures regarding DRL-issued returned checks. Review/modifications to policy will include recommendations 1-4 above.

Expected Completion Date for Corrective Action: March 31, 2016

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF REHABILITATION AND LIQUIDATION
DISBURSEMENT AND RECEIPTING PROCESSES

Finding No. 5: Bank Signature Authorities

Procedures related to maintenance of bank signature authorities were not adequate to ensure that signature authorities were timely and properly updated.

Recommendation: The DRL should enhance its policies and procedures to ensure that bank signature authorities are timely and properly removed and pertinent DRL staff is timely notified of the changes.

Response: We agree with the recommendation and will amend our policies and procedures to ensure timely removal of bank signature authorities and update of the "Check Signature Pool" reference document.

Expected Completion Date for Corrective Action: January 31 , 2016