



CHIEF FINANCIAL OFFICER
JIMMY PATRONIS
STATE OF FLORIDA

REPORT IA 19-503

AUDIT OF THE DEPARTMENT OF FINANCIAL SERVICES' DIVISION OF AGENT AND AGENCY SERVICES, BUREAU OF LICENSING

Operational audit performed by the Office of Inspector General to evaluate whether internal controls of the Department of Financial Services' Division of Agent and Agency Services, Bureau of Licensing over the agent licensing approval process are adequate and operating effectively

A handwritten signature in blue ink, appearing to read "David Harper".

David Harper, Inspector General
Office of Inspector General
Department of Financial Services

November 26, 2019



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EXECUTIVE SUMMARY

The Department of Financial Services (DFS), Office of Inspector General (OIG) conducted an operational audit of the DFS Division of Agent and Agency Services, Bureau of Licensing (BOL). The DFS OIG had not recently audited BOL and made a risk-based determination to perform a limited review of BOL's licensing and application approval process. This audit report provides the results of the OIG's audit.

The audit results revealed the need for BOL to improve internal controls, by formalizing Internal Policies and Procedures, to provide consistency and transparency to the BOL licensing and application approval process. The audit included a review of the design and effectiveness of key control activities, based on limited detailed testing, and resulted in no additional significant findings.

Background

BOL consists of approximately forty-two full-time positions comprising three units: The Education, Applications, and Analysis and Records. BOL issues and renews licenses and appointments for regulated insurance agents and agencies.

Florida Statutes, Section 626.112 states that no person may be, act as, or advertise or hold himself or herself out to be an insurance agent, insurance adjuster, customer representative, service representative, or managing general agent unless he or she is currently licensed by the department (BOL) and appointed by an appropriate appointing entity or person. All licenses require an appointment, except for insurance agency licenses.

Audit Objectives and Scope

The audit objectives and scope were to:

- Determine the adequacy of internal controls by evaluating the design and effectiveness of key internal controls over the BOL licensing and application approval process
- Verify that selected application and licensing requirements were met for BOL licenses issued from 1/01/2018 to 5/30/2019
- Determine BOL compliance with specific Florida Statutes, Florida Administrative Code, and applicable DFS Administrative Policies and Procedures (AP&Ps)

Audit Finding and Recommendation

Audit Finding:

BOL Internal Policies and Procedures (IP&Ps) – Review of key operational processes revealed the need for formalized BOL IP&Ps. IP&Ps will promote consistency across BOL operations and provide additional transparency of operational standards and expectations that provide evidence of BOL's intent to comply with Florida Statutes, Florida Administrative Code, and AP&Ps.

BOL has desktop procedures in place that provide staff with essential information, including specific types and classes of license applications processed in the Automated Licensing Information System (ALIS), the system of record. According to AP&P 1-02 Internal Controls Policy, based on Florida Statutes, Section 215.86 (Management Systems and Controls), leadership is responsible for establishing a system of internal controls. Policies and procedures are internal control activities designed to provide reasonable assurance that BOL will achieve its objectives. IP&Ps may include

control activities such as staff roles, duties and responsibilities, application approvals, supervisory reviews, and reporting requirements that promote consistency in operational execution and increase program success.

Recommendation:

The OIG recommends that BOL creates formal IP&Ps to strengthen internal controls over the licensing and application approval process.

AUDIT METHODOLOGY

This operational audit conforms with The International Professional Practices Framework (IPPF), published by The Institute of Internal Auditors. The IPPF requires the OIG to consider risk when planning to perform the audit and obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions that align with audit objectives. Additionally, the IPPF requires the auditors to meet objectivity requirements and possess necessary collective knowledge, skills and experience. The audit evidence obtained provides a reasonable basis for the OIG findings and conclusions.

To accomplish audit objectives, the OIG performed the following audit procedures:

- Reviewed specific Florida Statutes and Florida Administrative Code, DFS AP&Ps, desktop procedures, and performance measures
- Conducted interviews with BOL leadership and staff from Applications, Office of General Counsel, and Analysis and Records Unit staff
- Performed and documented walk-throughs of significant processes
- Conducted detailed testing of license applications for selected license types
- Reviewed the Applications Unit training program
- Assessed the Critical Analysis Unit's audit process to understand its role in the licensing and application approval process

MANAGEMENT'S RESPONSE

The BOL response is provided as an attachment and the DFS OIG agrees with the response.

ACKNOWLEDGEMENTS

BOL leadership was proactive during the audit, when observations were brought to their attention that did not rise to the level of a finding, by immediately evaluating and addressing the observations. To ensure licenses that expire over the weekend are timely updated to an inactive status, BOL worked with the DFS Office of Information Technology to schedule the processing of licensing jobs, seven days a week.

BOL leadership provided examples of current projects that demonstrated a commitment to the ongoing improvement of licensing application and approval operations. BOL has been developing an internal application processing training module, since August 2018, with expected completion during fiscal year 2019-20. BOL explained that the training module will include built-in checklists, license qualifications, and tutorials with screenshots on how to process applications. The computer-based

training module will be provided to both existing and new licensing and application staff and is expected to provide additional consistency, efficiency and effectiveness in training and operational performance.

The OIG would like to thank BOL leadership and staff for their input, cooperation and assistance throughout the performance of this audit.

The Office of Inspector General performs audits, consulting activities, and reviews of Department of Financial Services' programs, activities, and functions to promote accountability, integrity, and efficiency in state government.

This audit was conducted in conformance with The *International Standards for the Professional Practice of Internal Auditing*, published by The Institute of Internal Auditors, Inc., pursuant to Section 20.055, Florida Statutes, and *Principles and Standards for Offices of Inspectors General*, published by the Association of Inspectors General. This audit was conducted under the supervision of Chief Audit Executive, Sheila Walton-Moore, CPA, CIA, CIGA, MBA, Director of Audit.

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

DISTRIBUTION LIST

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ATTACHMENT

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Department of Financial Services' Division of Agent and Agency Services,
Bureau of Licensing (BOL)

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 1: BOL Internal Policies and Procedures

Review of key operational processes revealed the need for formalized BOL Internal Policies and Procedures (IP&Ps). IP&Ps will promote consistency across BOL operations and provide additional transparency of operational standards and expectations that provide evidence of BOL's intent to comply with Florida Statutes, Florida Administrative Code, and AP&Ps.

BOL has desktop procedures in place that provide staff with essential information, including specific types/classes of license applications processed in ALIS, the applications system of record.

Recommendation:

The OIG recommends that BOL creates formal IP&Ps to strengthen internal controls over the licensing and application approval process.

Response: The Bureau of Licensing has been working to create a more robust set of online procedures related to application processing. We will complete these procedures and have them incorporated into a formal Internal Policy & Procedure (IP&P) by June 30, 2020. Our goal is to eventually create training modules related to these procedures for current, prospective, and new employees.

Expected Completion Date for Corrective Action: June 30, 2020