

FHP Training Academy Employee Benefit Fund Audit Report 202122-12

October 18, 2022

Executive Summary

The Department of Highway Safety and Motor Vehicles (Department) has established Department Policy 11.05 to provide guidelines for the administration of an employee benefit fund (EBF), in accordance with Section 112.217, Florida Statutes (F.S.), and Chapter 15-5.001, Florida Administrative Code (F.A.C.). The Florida Highway Patrol (FHP) Training Academy (Academy) has a unique EBF which receives funding from the Academy's memento sales.

The purpose of this audit was to review and evaluate the Academy's EBF and determine compliance with applicable laws, Department policy and procedures. We reviewed and reconciled the most recent Semi-Annual EBF report and a sample of revenues and expenses against related reports, ledgers, and statements to verify accuracy. We also evaluated applicable supporting documentation for appropriateness, accuracy, and completion.

We noted the Academy maintained adequate controls to ensure that purchases were for allowable expenses, members authorized to sign checks are appropriate, and checks are signed by the required number of authorized signers. However, we noted areas where improvements could be made.

Our review determined improving separation of duties would strengthen controls. We recommend Academy leadership strengthen controls to ensure adequate separation of duties over the Academy EBF. We also recommend Academy leadership ensure the Statement of Separation of Duties form accurately lists members who are preparing and making deposits, reconciling the bank account, and signing checks.

Our review also determined improving recordkeeping and reconciling processes would enhance accuracy and accountability. We recommend Academy leadership develop and implement processes to enhance recordkeeping and reconciling to provide increased accuracy and accountability over the Academy EBF.

Our review further determined submitting documentation for credit card purchases would enhance compliance with Department policy. We recommend Academy leadership ensure all applicable credit card purchase documentation relating to Academy EBF purchases is submitted to the Bureau of Accounting for review as part of the semi-annual reporting process.

Background and Introduction

Section 112.217, F.S., grants the Department authority to operate an EBF within Department-occupied spaces. The Department developed Policy 11.05, *Employees' Benefit Fund*, to establish guidelines for the administration of Department EBFs, including the Academy EBF. Typically, EBF monies come from vending machine proceeds from within the building. However, Chapter 15-5.001, F.A.C, stipulates that the FHP Academy EBF can be funded by the sale of FHP mementos.

In accordance with Department Policy 11.05, Department EBFs are established for the benefit of employees working in the fund's designated building and those employees' families. Specific to the Academy EBF, monies can be used for FHP Museum upkeep, the purchase and sale of mementos, and for specific events. The Academy EBF makes these purchases with checks and an EBF credit card. Explicitly disallowed purchases include cash gifts¹, including gift certificates, event tickets, alcoholic beverages, and gifts for weddings, births, birthdays, or adoptions.

Department Procedure BA-9, *Employees' Benefit Fund Procedure*, requires that each EBF committee submit a Statement of Cash Income and Expenditures and all applicable documentation (Semi-Annual Report) semi-annually to the Bureau of Accounting. Examples of applicable documentation include bank statements, transaction registers, the Statement of Separation of Duties, and expenditure receipts.

The Statement of Separation of Duties form lists the persons authorized to prepare and make deposits, reconcile the bank account, and sign checks.

The Reconciliation Reports are generated monthly and provide an overview of the EBF's operations for each month, including checks and payments, deposits, and other credits.

¹ Monetary gifts in designated amounts may be given to members upon retirement.

Findings and Recommendations

We noted the Academy maintained adequate controls to ensure that purchases are for allowable expenses, members authorized to sign checks are appropriate, and checks are signed by the required number of authorized signers. However, we noted areas where improvements could be made.

Separation of Duties

Finding No. 1: Improving separation of duties would strengthen controls.

The American Institute of CPAs (AICPA) specifies separation of duties is a basic building block of internal controls and risk management. The principle of separation of duties is based on shared responsibilities of a key process that disperses the critical functions of the process to more than one person to reduce the risk of error or fraud.

In other words, one person should not have sole control over the lifespan of a transaction which includes the following:

- Initiating the transaction;
- Approving the transaction;
- Recording the transaction;
- Reconciling the transaction;
- Handling the purchased item/asset; and
- Reviewing reports.

DAS Procedure BA-9 requires a Statement of Separation of Duties form must be completed and submitted to the Bureau of Accounting every six months. Similarly, the Academy Procedures Guide specifies the Statement of Separation of Duties should be prepared and submitted on a semi-annual basis. The Statement of Separation of Duties form lists the persons authorized to prepare and make deposits, reconcile the bank account, and sign checks.

During our review and through communications with Academy leadership, we noted the separation of duties should be improved.

One member has the sole authority over the lifespan of credit card purchases, including making purchases with the EBF credit card, and reviewing and reconciling the EBF credit card purchases.

Similarly, one member has the authority to make and prepare bank deposits, including cash deposits, and the authority to reconcile the bank statements.

Further, members with the authority to make bank deposits were not listed on the Statement of Separation of Duties form.

Academy leadership specified that although one member had the authority to make bank deposits and reconcile the bank statements, the member did not actually prepare any bank deposits during the scope of our audit.

Recommendations

We recommend Academy leadership strengthen controls to ensure adequate separation of duties over the Academy EBF.

We also recommend Academy leadership ensure the Statement of Separation of Duties form accurately lists members who are preparing and making deposits, reconciling the bank account, and signing checks.

Management Response

The FHP agrees with this finding and recommendation. The FHP Academy has codified the separation of duties among the staff on the appropriate HSMV form. Separation, as much as possible with the limited staff, ensures that different personnel prepare and make deposits, reconcile bank statements, make purchases, and work in the store. HSMV policy does require two signatures on the checks, and the FHP Academy EBF complies. Historically, Academy leadership, by position the Major and Captain, and the Academy Office Manager perform these duties and will continue to do so. The Captain also manages the bank account, including maintaining the log of all expenditures. However, he is not authorized to make purchases (except by check where two signatures are required and a monthly direct pay from the bank account to the Florida Department of Revenue to pay taxes), deposits, or work in the store. A copy of the most current separation of duties is attached as an addendum to this response.

Recordkeeping and Reconciliation

Finding No. 2: Improving recordkeeping and reconciling processes would enhance accuracy and accountability.

The purpose of the Semi-Annual Report, in accordance with its attestation statement, is to serve as a true and correct accounting of the operations of the Academy's EBF.

Reconciliation is the process of comparing transactions and activity to supporting documentation. Further, reconciliation involves resolving any discrepancies that may

have been discovered, either through error or fraud. Proper reconciliation supports the accuracy and validity of financial reports.

Semi-Annual Report

After reviewing the Semi-Annual Report and supporting documents, we determined the expenditures listed are incorrect due to miscategorized expenditures and duplicated expenses. Specifically, automatic payments for the EBF credit card were incorrectly categorized as bank fees in March and April.

The Total Expenditures should have been \$104,671.45 versus the reported total of \$122,083.50 which appears to reflect the duplication of the expenses listed for Bank Charges, Florida Department of Revenue, and Fifth Third Fees. The table below summarizes our review.

Semi-Annual Report Review			
January 2021 – June 2021			
Semi-Annual Report Expenditures	Amounts Listed on Semi-Annual Report	Amounts Calculated from Bank Statements	Difference
Bank Charges	\$4,260.29	\$1,516.34	(\$2,743.95)*
Academy Expenditures	\$104,671.45	\$90,003.33	(\$14,668.12)**
FL Dept of Revenue	\$8,241.70	\$8,241.70	-
Fifth Third Fees	\$4,910.08	\$4,910.08	-
Total Expenditures (as reported)	\$122,083.50		
Calculated Totals	\$122,083.52	\$104,671.45	(\$17,412.07)

* Reflects the correction of credit card autopayments misclassified as Bank Charges

** Reflects the correction of duplicated expenditure totals (Bank Charges, FL Dept of Revenue, and Fifth Third Fees)

Reconciliation Reports

Through communications with Academy leadership, we learned the monthly reconciliation reports are generated at least in part from the bank statements rather than from contemporaneous records (i.e., records kept as transactions occur) which are then reconciled to the bank statements.

Additionally, we noted outstanding transactions are not reflected on the monthly reconciliation reports despite there being uncleared checks at the end of all six months reviewed.

Further, because these uncleared transactions are not reported, their effect on the fund's balance is not reflected. This resulted in differences between the reported balance and book balance² for all six months, including the following significant differences:

- 32% difference for February 2021;
- 36% difference for April 2021;
- 35% difference for May 2021; and
- 20% difference for June 2021.

Recommendation

We recommend Academy leadership develop and implement processes to enhance recordkeeping and reconciling to provide increased accuracy and accountability over the Academy EBF.

Management Response

Over the past year, the FHP Academy EBF implemented a detailed expenditure log and started reviewing the detailed sales report generated by our point-of-sale (pos) system. These two reports assist in preparing the monthly report and reconciling bank statements. We also updated our credit card processing system to eliminate the fees previously charged, thus eliminating the confusion on our reporting documentation submitted to HSMV.

Credit Card Purchase Documentation

Finding No. 3: Submitting documentation for credit card purchases would enhance compliance with Department Policy.

Department Policy 11.05, *Employees' Benefit Fund*, specifies all documentation supporting the receipts and disbursements related to the EBF must be submitted with the Statement of Cash Income and Expenditures, including bank statements, receipts of expenditures, voided or canceled checks, and any other applicable documentation.

² As calculated by OIG staff.

After reviewing the Semi-Annual Report and supporting documents, and through communications with Academy leadership, we determined documentation for credit card purchases, including the credit card statement, are not submitted to the Bureau of Accounting for review.

Recommendation

We recommend Academy leadership ensure all applicable credit card purchase documentation relating to Academy EBF purchases is submitted to the Bureau of Accounting for review as part of the semi-annual reporting process.

Management Response

Academy leadership will submit the Academy EBF credit card statements, receipts and other applicable supporting purchasing documentation with our semi-annual reports to the HSMV Bureau of Accounting.

Purpose, Scope, and Methodology

The objective of this audit was to review and evaluate the FHP Training Academy's employee benefit fund and determine compliance with applicable laws, Department policy and procedures.

The scope of this audit included the oversight of the Training Academy's employee benefit fund from July 1, 2020 to June 31, 2021.

The methodology included:

- Reviewing applicable Florida Statutes and Administrative Code;
- Reviewing applicable Department policies and procedures;
- Reviewing and reconciling the Semi-Annual EBF report and a sample of revenues and expenses against related reports, ledgers, and statements, verifying accuracy; and
- Evaluating applicable, supporting documentation for appropriateness, accuracy, and completion.

Acknowledgement

We would like to thank the FHP Training Academy's leadership and the Bureau of Accounting for their assistance during this engagement and express our appreciation for their cooperation.

Distribution, Statement of Accordance, and Project Team

Distribution

Terry L. Rhodes, Executive Director
Jennifer Langston, Chief of Staff
Steve Burch, Bureau Chief of Accounting
Colonel Gene Spaulding, Director of Florida Highway Patrol
Lieutenant Colonel Troy Thompson, Deputy Director of Patrol Operations
Lieutenant Colonel Mark Brown, Deputy Director of Support Operations
Chief Joseph Harrison, Chief of Special Services
Major Kelly Hildreth, FHP Training Academy Director

Melinda M. Miguel, Chief Inspector General
Sherrill F. Norman, Auditor General

Statement of Accordance

Section 20.055, Florida Statutes, requires the Florida Department of Highway Safety and Motor Vehicles' Inspector General to review, evaluate, and report on policies, plans, procedures, accounting, financial, and other operations of the Department and to recommend improvements. This audit engagement was conducted in accordance with applicable *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General.

Project Team

Engagement conducted by:
Destiny Thomas, Auditor
Bethany Vickerman, Auditor

Under the supervision of:
Erin Mook, Audit Director

Approved by:


Mike Stacy, Inspector General

ATTACHMENT - Management Response



Terry L. Rhodes
Executive Director

2900 Apalachee Parkway
Tallahassee, Florida 32399-0500
www.flhsmv.gov

MEMORANDUM

DATE: October 10, 2022
TO: Erin Mook, Audit Director
FROM: Major Kelly M. Hildreth
SUBJECT: FHP Training Academy Employee Benefit Fund Audit (202122-12)

The following is our response to the findings and recommendations presented in the report.

Separation of Duties

Finding No. 1: Improving separation of duties would strengthen controls.

Recommendations

We recommend Academy leadership strengthen controls to ensure adequate separation of duties over the Academy EBF.

We also recommend Academy leadership ensure the Statement of Separation of Duties form accurately lists members who are preparing and making deposits, reconciling the bank account, and signing checks.

Management Response

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Recordkeeping and Reconciliation

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Recommendations

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Management Response

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Recommendations

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Management Response

Academy leadership will submit the Academy EBF credit card statements, receipts and other applicable supporting purchasing documentation with our semi-annual reports to the HSMV Bureau of Accounting.

cc: Colonel Gene Spaulding
Lieutenant Colonel Mark Brown
Chief Joseph Cory Harrison
Captain Thomas Dewitt
EBF file

attachment

SEMI-ANNUAL EMPLOYEE BENEFIT FUND SEPARATION OF DUTIES

Period Beginning: Aug 09, 2022 Ending: December 31, 2022

OFFICE LOCATION: FHP Training Academy, 75 College Drive, Havana, FL 32333
OFFICE NUMBER: 850-558-4250

A. Authorized persons preparing and making bank deposits:

1. Lieutenant Wesley Harsey
2. Sergeant Scott Stoltz

B. Authorized persons to prepare Monthly Treasurer Report:

1. Lieutenant Joshua Spargo
2. Captain Thomas Dewitt (will only perform duties in absence of Lt. Spargo)

C. Authorized person to reconcile bank statements (Checking/Credit Card/Debit Card):

1. Captain Thomas Dewitt

D. Authorized EBF Store Associates who will make store sales and on online orders sales:

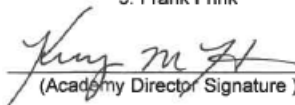
1. Lieutenant Wesley Harsey
2. Sergeant Scott Stoltz
3. Autumn Scott

E. Authorized persons to sign EBF checks:

1. Captain Thomas Dewitt
2. Michelle Baker
3. Major Kelly Hildreth

F. Authorized persons to make purchases or pay bills with EBF Debit and Credit Card:

1. Lieutenant Wesley Harsey
2. Sergeant Scott Stoltz
3. Autumn Scott
4. Michelle Baker
5. Frank Frink


(Academy Director Signature)

SEP 08 2022
(Date)

Revised 9/2022