

**OFFICE OF INSURANCE REGULATION  
APPLICATIONS COORDINATION ELECTRONIC  
DOCUMENT MANAGEMENT SYSTEM  
(APPLICATIONS SYSTEM)**

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Operational Audit

March 2006 through February 2008



## COMMISSIONER OF INSURANCE REGULATION

The Office of Insurance Regulation (OIR) is administratively housed within the Department of Financial Services (DFS), but operates under the direction of the Financial Services Commission which consists of the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture. The Commission is responsible for appointing the Director of the Office of Insurance Regulation, who may also be known as the Commissioner of Insurance Regulation. Kevin M. McCarty served as Commissioner during the audit period.

The audit team leader was Donna Edwards and the audit was supervised by Richard Munson, CPA. Please address inquiries regarding this report to Nancy Tucker, CPA, Audit Manager, by e-mail [nancytucker@aud.state.fl.us](mailto:nancytucker@aud.state.fl.us) or by telephone (850) 487-4370.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

## OFFICE OF INSURANCE REGULATION

### Applications Coordination Electronic Document Management System (Applications System)

#### SUMMARY

This operational audit focused on selected general and application controls related to the Applications Coordination Electronic Document Management System (Applications System) of the Office of Insurance Regulation (OIR) for the period March 2006 through February 2008 and selected actions through August 29, 2008. Our audit disclosed:

#### CHANGE MANAGEMENT

**Finding No. 1:** OIR change management controls could be enhanced. OIR staff were unable to provide documentation to evidence user acceptance testing and approval for all Applications System program changes.

#### BATCH PROCESSING CONTROLS

**Finding No. 2:** The OIR scanning and indexing process could be enhanced by implementing batch processing controls that ensure all documents received with an application package are processed.

#### USER ACCESS

**Finding No. 3:** OIR security controls over user access to the Applications System need improvement.

#### BACKGROUND

The Office of Insurance Regulation (OIR) is responsible for the enforcement of statutes and rules related to the business of insurance and the monitoring of industry markets. OIR has regulatory oversight of company solvency, policy forms and rates, market conduct performance, and new company entrants to the Florida market.

Insurance companies that want to sell insurance in the State are required to submit various applications to OIR. Applications are either submitted in the form of paper documents via mail or electronically through iApply.<sup>1</sup> All applications submitted to OIR are filed with the Application Coordination Section which administratively reports directly to the OIR Commissioner. The purpose of the Application Coordination Section<sup>2</sup> is to facilitate interdepartmental application reviews and coordinate overall procedures among the financial business oversight units within OIR, which include Life and Health Financial Oversight, Property and Casualty Financial Oversight, and Specialty Product Administration. The Application Coordination Section is responsible for receiving, coordinating, tracking, and monitoring company applications to facilitate the processing of such applications within the timeframes established by law.<sup>3</sup>

OIR is to review the applications received to determine whether they were completed in accordance with the filing requirements specified by laws and rules. Once an application is deemed complete, the application, along with supporting documentation, is to be scanned and indexed into the Applications Coordination Electronic Document Management System (Applications System). The Applications System is a browser-based paperless computer system

<sup>1</sup> iApply is a new online system designed to handle company applications. During the audit period, iApply was not fully operational and, thus, was not included as part of the audit.

<sup>2</sup> The Application Coordination Section is also referred to as the Company Admissions Section on the OIR Web site.

<sup>3</sup> Sections 120.60(1) and 120.80(9), Florida Statutes.

that electronically manages and tracks an application throughout its entire life cycle. The Market Research and Technology business unit of OIR is responsible for oversight of the Applications System.

After applications and supporting documentation are scanned and indexed, the documents are electronically available for concurrent review by all applicable areas within OIR. Upon completion of the review and approval process, notification of approval is to be mailed to the applicant.

During the audit period, OIR entered into a staff augmentation contract with a private company for programming services related to the Applications System as well as other OIR systems. The contracted programmer reported to the Market Research and Technology business unit.

According to OIR records, during the audit period July 1, 2006, through February 29, 2008, OIR received 1,668 applications.

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## FINDINGS AND RECOMMENDATIONS

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### Finding No. 1: Change Management

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Effective controls over program changes ensure that only authorized and properly functioning changes are implemented. Change management controls include procedures to ensure that all program changes are properly authorized, tested, and approved for implementation.

During the audit period, the Applications System underwent 35 program changes. Sound business practices for program changes include final user acceptance testing and approval prior to placing the change into production. At OIR, the contracted programmer required that users or requestors test and approve changes prior to moving the changes into production.

For 19 of the 20 (95 percent) program changes we selected for testing, OIR staff were unable to provide documentation of user acceptance testing and approval. In response to our inquiry, OIR staff indicated that, during user acceptance testing, programmers and users or requestors primarily communicated by telephone or e-mail; however, documentation of this communication was not available for our review.

Absent sufficient documentation of user acceptance testing and approval, the risk is increased that erroneous or unauthorized program changes may be placed in production and not timely detected.

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**Recommendation: To enhance change management controls, OIR should ensure that documentation of user acceptance testing and approval of all Applications System program changes is maintained.**

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### Finding No. 2: Batch Processing Controls

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Effective input controls should ensure that all data expected for processing is received and processed completely. For data that is received for input in batches, input controls include the use of batch control totals, such as record counts, that can be compared to system-calculated counts to ensure that all received data was processed.

During the audit period, applications mailed to OIR were processed by the Application Coordination Section. Upon receipt, the application was to be date stamped and reviewed to determine if the application was complete according to requirements specified by Florida Statutes and administrative rule.<sup>4</sup> Incomplete applications were to be returned to

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<sup>4</sup> Chapters 624, 626 through 629, 632, 634, 636, 641, and 651, Florida Statutes, and Department of Financial Services Rules, Chapter 690, Florida Administrative Code.

the applicant with a list of items requiring clarification. Once the application was complete, the application and supporting documents were to be scanned and indexed into the Applications System. We observed that most application packages included numerous supporting documents.

Our audit disclosed that the scanner used to input the applications and supporting documents into the Applications System automatically assigned a document number to each scanned document<sup>5</sup> providing a total system count of documents scanned. However, OIR staff did not routinely perform record counts of documents prior to scanning and indexing, and, thus, were unable to compare the quantity of documents processed to the system count. As a result, OIR staff had limited assurance that all documents received were processed.

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**Recommendation: OIR should implement input controls to include counting and recording the total number of documents in an application package prior to scanning and indexing. Such counts should be compared to system-generated count totals upon completion of the scanning and indexing process.**

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**Finding No. 3: User Access**

Effective security administration procedures reduce the risk of unauthorized system access by ensuring that:

- Appropriate and timely action is taken to request, approve, assign, and remove user access accounts;
- User access privileges are periodically reviewed; and
- Necessary security controls relating to the management of access privileges are in place.

Table 1 shows, as of April 28, 2008, the number of active and inactive Application System user accounts with inquiry and update privileges. Rather than delete user accounts from the system when no longer needed, to maintain a historical record, the Department placed the user accounts in an inactive status.

**Table 1**  
**Active and Inactive**  
**Application System User Accounts**

| Type of Access | No. of Active User Accounts | No. of Inactive User Accounts | Total |
|----------------|-----------------------------|-------------------------------|-------|
| Inquiry        | 960                         | 204                           | 1,164 |
| Update         | 165                         | 165                           | 330   |
| <b>Total</b>   | 1,125                       | 369                           | 1,494 |

Source: OIR-Provided List.

In response to our inquiries, OIR staff indicated that policies and procedures<sup>6</sup> were in place that addressed creating, modifying, and terminating user access and access rights and privileges. However, our tests of Application System user access accounts disclosed that such policies and procedures were not always followed, as described below:

- For 20 of 24 (83.3 percent) user access accounts tested, OIR staff could not provide documentation to evidence approval of the user access accounts. For 2 of the 20, OIR staff were unable to determine the user’s identity.
- For 1 of 24 (4.2 percent) user access accounts tested, access was not timely inactivated when the user separated from OIR effective July 27, 2007. The user’s access account, which included update privileges, was still active at the time of our review. Subsequent to our inquiry, the user access account was inactivated on August 29, 2008.

<sup>5</sup> A document can be comprised of one page or multiple pages.

<sup>6</sup> DFS Division of Information Services *Operating Procedure No. DIS 011* and Department of Financial Services, Office of Insurance Regulation, Office of Financial Regulation *Enterprise Security Policy 4.03*.

- Ten of the 24 user access accounts tested were for individuals who had terminated employment. OIR staff did not timely inactivate access for 4 of the 10 (40 percent) terminated employee user accounts. The 4 user accounts remained active from 12 to 1,049 days after the employee's termination date.
- According to *Enterprise Security Policy 4-03*, there shall be a formal process for the periodic review and confirmation of user accounts, access controls, and privileges. In response to our inquiries, OIR staff acknowledged that there was no documentation of a periodic review of user access rights.

Unauthorized access to system resources increases the potential for malicious or unintentional disclosure, modification, or destruction of data and system resources. Documenting and periodically reviewing the approval and assignment of user access accounts, timely revoking the access of terminated employees, and properly managing access privileges are effective procedures that decrease the risk of unauthorized access.

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**Recommendation:** To minimize the risk of compromising OIR data and information technology (IT) resources, OIR should strengthen its IT security controls related to the management of access privileges and should maintain all user access documentation.

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### OBJECTIVES, SCOPE, AND METHODOLOGY

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This operational audit focused on selected general and application controls related to the OIR Applications Coordination Electronic Document Management System. The objectives of this audit were:

- To evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

We conducted this operational audit in accordance with applicable 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.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period March 2006 through February 2008 and selected actions through August 29, 2008. In conducting our audit we:

- Interviewed selected OIR personnel.
- Obtained an understanding of internal controls, including input and output controls, and tested key processes and procedures related to the Applications System to determine their effectiveness.
- Tested 20 program changes from the population of 35 program changes to determine the adequacy of IT general controls over systems development and maintenance.
- Tested 24 user accounts, 19 with update capabilities and 5 with inquiry capabilities, to determine the adequacy of IT general controls over user access.
- Performed various analytical reviews of OIR-provided data.

- Performed various other audit procedures as necessary to accomplish the objectives of the audit.

**AUTHORITY**

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT RESPONSE**

In a response letter dated October 30, 2008, the Commissioner of the Office of Insurance Regulation concurred with our audit findings and recommendations. The Commissioner's response is included as Exhibit A.

EXHIBIT A  
MANAGEMENT'S RESPONSE



OFFICE OF INSURANCE REGULATION

**KEVIN M. MCCARTY**  
COMMISSIONER

**FINANCIAL SERVICES  
COMMISSION**

**CHARLIE CRIST**  
GOVERNOR

**ALEX SINK**  
CHIEF FINANCIAL OFFICER

**BILL McCOLLUM**  
ATTORNEY GENERAL

**CHARLES BRONSON**  
COMMISSIONER OF  
AGRICULTURE

October 30, 2008

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

Re: Auditor General letter dated October 7, 2008 – Preliminary and Tentative Audit Findings and Recommendations – Office of Insurance Regulation's **Applications Coordination Electronic Document Management System (Applications System)**

Dear Mr. Martin:

This letter is being forwarded to you in response to referenced preliminary and tentative audit findings and related recommendations.

The Office of Insurance Regulation (the Office) has reviewed the summary, background information, findings and related recommendations that were forwarded to this agency in an enclosure to referenced letter. This Office's responses to the findings and related recommendations are included in the enclosure to this letter.

I appreciate the opportunity to review and respond to referenced preliminary and tentative audit findings and related recommendations.

Sincerely,  
  
Kevin M. McCarty

AC/aec

Enclosure

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

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**Management Responses to the Auditor General's Preliminary and Tentative Audit Findings and related Recommendations – Office of Insurance Regulation's Applications Coordination Electronic Document Management System (Applications System)**

**Change Management**

**Finding No. 1:** OIR change management controls could be enhanced. OIR staff were unable to provide documentation to evidence user acceptance testing and approval for all Applications System program changes.

**Recommendation:** To enhance change management controls, OIR should ensure that documentation of user acceptance testing and approval of all Application system program changes is maintained.

**Response:** The Office concurs with Finding No. 1 and related recommendations. An updated OIR Administrative Policy and Procedure (AP&P) will be developed and implemented to reflect this finding and recommendations within the next 90 calendar days.

**Batch Processing Controls**

**Finding No. 2:** The OIR scanning and indexing process could be enhanced by implementing batch processing controls that ensure that all documents received with an application package are processed.

**Recommendation:** OIR should implement input controls to include counting and recording the total number of documents in an application package prior to scanning and indexing. Such counts should be compared to system-generated count totals upon completion of the scanning and indexing process.

**Response:** The Office concurs with Finding No. 2 and related recommendations. Accordingly, a formal OIR internal procedure has been developed and implemented to reflect this finding and related recommendations.

**User Access**

**Finding No. 3:** OIR security controls over user access to the Applications System need improvement.

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

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**Recommendation:** To minimize the risk of compromising OIR data and information technology (IT) resources, OIR should strengthen its IT security controls related to the management of access privileges and should maintain all user access documentation.

**Response:** The Office concurs with Finding No. 3 and related recommendations. Accordingly, an OIR Administrative Policy and Procedure (AP&P) will be developed and implemented to reflect this finding and related recommendations within the next 90 calendar days.



