

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2021-135
February 2021

STATE BOARD OF ADMINISTRATION



Sherrill F. Norman, CPA
Auditor General

State Board of Administration

Article IV, Section 4(e) of the State Constitution (1968), as amended, establishes the State Board of Administration (SBA). The SBA Board of Trustees is composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The Trustees delegate administrative and investment authority to an appointed Executive Director. Ashbel Williams served as Executive Director during the period of our audit.

The team leaders were Thomas Drawbaugh, CPA, and Leslie Lee Kee
and the audit was supervised by Allen G. Weiner, CPA.

Please address inquiries regarding this report to Joshua T. Barrett, CPA, Audit Manager, by e-mail at joshuabarrett@aud.state.fl.us or by telephone at (850) 412-2804.

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STATE BOARD OF ADMINISTRATION

SUMMARY

This operational audit of the State Board of Administration (SBA) focused on the SBA's administration of the Florida Retirement System (FRS) Investment Plan, including educational services and materials provided to FRS members, and selected administrative activities. The audit also included a follow-up on the findings noted in our report No. 2018-034. Our audit disclosed the following:

Finding 1: Analysis of FRS member surveys indicated that most FRS members were satisfied with the educational services provided by the SBA's third-party administrator. However, survey results also showed that the educational materials and information provided to FRS members could be enhanced to better assist FRS members in making an informed FRS retirement plan selection.

Finding 2: As similarly noted in our report No. 2018-034, SBA management should ensure that all contract information and records are timely posted to the SBA Web site.

Finding 3: Despite policy prohibitions on text and instant messaging outside the SBA-approved application, 16 SBA Apple devices were used to send or receive 856 text messages outside the approved application during the period December 19, 2019, through February 18, 2020. Additionally, the SBA had not disabled iMessaging on SBA Apple devices and SBA controls did not promote the retention of text messages and iMessages in accordance with State public records law.

BACKGROUND

The State Constitution¹ establishes the State Board of Administration (SBA) governed by a three-member Board of Trustees composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The SBA provides investment management and debt administrative services to various State and local governmental entities. As of June 30, 2020, SBA-managed assets were valued at approximately \$203.7 billion while SBA-administered long-term debt totaled approximately \$14.4 billion.

FINDINGS AND RECOMMENDATIONS

Finding 1: New FRS Member Satisfaction

Pursuant to State law,² the SBA established the Florida Retirement System (FRS) Investment Plan, a defined contribution program for FRS members under which retirement benefits are provided to eligible employees who elect to participate. The FRS Investment Plan is funded by employer and employee contributions, the rates for which are established in State law³ based on an employee's membership

¹ Article IV, Section 4(e) of the State Constitution.

² Section 121.4501(1), Florida Statutes.

³ Section 121.71, Florida Statutes.

class. According to SBA records, employer and employee contributions totaled approximately \$648 million during the 2018-19 fiscal year.

State law⁴ permits new FRS members to participate in either the FRS Pension Plan or the FRS Investment Plan. Prior to January 1, 2018, if an employee did not elect to participate in the FRS Investment Plan, the employee would default into the FRS Pension Plan after the last business day of the fifth month following the employee's month of hire. On or after January 1, 2018, if a non-Special Risk Class employee does not make an election by the last business day of the eighth month following the employee's month of hire, the employee defaults into the FRS Investment Plan. According to SBA records, default enrollment in the FRS Pension Plan decreased by 27,192 members between the 2017-18 and 2018-19 fiscal years, while 23,024 members defaulted into the FRS Investment Plan during the 2018-19 fiscal year.

To enable new FRS members to make informed retirement decisions, State law⁵ specifies that the SBA, in coordination with the Department of Management Services (DMS), is to provide an education component for eligible employees that includes impartial and balanced information about plan choices, and requires the SBA to contract with one or more organizations to provide administrative, educational, and investment services. The SBA is responsible for monitoring the performance of the contractors to ensure compliance with contract terms, applicable laws, and SBA rules.

State law⁶ requires the SBA and the DMS to design educational services that assist FRS members in selecting either the FRS Pension Plan or FRS Investment Plan. The educational services are to include:

- Disseminating educational materials.
- Providing retirement planning education.
- Explaining the FRS Pension Plan and the FRS Investment Plan.
- Offering financial planning guidance on matters such as investment diversification, investment risks, investments costs, and asset allocation.

The SBA contracted with a third-party administrator to design and disseminate the educational services, including all educational materials and resources.

To measure the degree of new FRS member satisfaction with the educational services provided by the SBA's third-party administrator, we mailed surveys during May 2020 to 1,000 FRS members whose retirement plan selection period ended at some point during the period July 2018 through February 2020. Survey questions addressed satisfaction with the adequacy, impartiality, and timely receipt of the educational services provided during the retirement plan selection period. We also included questions to measure the adequacy of information provided on the *MyFRS* Web site and *MyFRS Financial Guidance Line*.⁷ **EXHIBIT A** to this report lists the new FRS member survey questions.

⁴ Section 121.4501(4), Florida Statutes.

⁵ Sections 121.4501(8)(b)1., and 121.4501(10), Florida Statutes.

⁶ Section 121.4501(8)(b)2., Florida Statutes.

⁷ *MyFRS Financial Guidance Line* is a free telephone line that provides retirement and financial planning services to FRS members.

We received 107 responses to our survey. Our evaluation of the surveyed FRS members' responses, as summarized in Table 1, indicated that most of the responding FRS members were satisfied with the educational services provided by the SBA's third-party administrator. However, 19 percent of survey respondents expressed dissatisfaction when asked whether the FRS educational materials and information received during the new hire orientation period were adequate to select a retirement plan. FRS members provided comments indicating that the educational materials and information received were not understandable and did not provide sufficient information to compare the retirement plan options.

Table 1
New FRS Member Satisfaction Survey

	Dissatisfied		Satisfied		Total Number of Responses ^a
	Number of Responses	Percentage of Responses	Number of Responses	Percentage of Responses	
FRS New Hire educational materials and information were received.	7	7%	91	93%	98
FRS New Hire educational materials and information were adequate to select a retirement plan.	17	19%	72	81%	89
FRS educational materials and resources were timely provided throughout the selection period.	16	17%	76	83%	92
FRS educational materials and resources were easily accessible.	15	16%	77	84%	92
FRS educational materials and resources appeared impartial.	5	7%	67	93%	72
Information provided on the MyFRS Web site was adequate to select a retirement plan.	11	15%	63	85%	74
MyFRS Financial Guidance Line information was adequate to select a retirement plan.	1	3%	35	97%	36

^a Not all 107 new FRS members who responded to the survey provided responses to every question or responded "I don't know" to the question.

Source: New FRS member survey responses.

Recommendation: We recommend that SBA management continue efforts to provide quality educational services to FRS members and evaluate the understandability and adequacy of FRS new hire educational materials and information to ensure that it promotes informed retirement plan selections.

Finding 2: Contract Information Reporting

Pursuant to State law,⁸ the Department of Financial Services established the Florida Accountability Contract Tracking System (FACTS), an online tool that provides users and the public access to State

⁸ Section 215.985(14), Florida Statutes.

contract information. Effective July 1, 2013, State law required, within 30 calendar days of executing a contract, State entities⁹ to post to FACTS for each contract:

- The names of the contracting entities and procurement method.
- The contract beginning and ending dates and the nature or type of commodities or services purchased.
- Applicable contract unit prices and deliverables and the total compensation to be paid or received under the contract.
- All payments made to the contractor to date and applicable contract performance measures.
- If a competitive solicitation was not used to procure the goods or services, the justification of such action, including citation to a statutory exemption or exception from competitive solicitation, if any.
- Electronic copies of the contract and procurement documents redacted to exclude confidential and exempt information.

State law¹⁰ provides that, in lieu of posting to FACTS, the Department of Legal Affairs and the Department of Agriculture and Consumer Services may post the required contract information to their own Web sites in a downloadable format that allows offline analysis. However, there is no statutory requirement for the SBA to post contract information on the SBA Web site.

To promote transparency, the SBA had established processes for compiling and reporting contracts on the SBA Web site. Specifically, each quarter SBA contract management was to identify all contracts that were effective through a specified date and contracts added during the reporting period were to be provided to the SBA legal department and the applicable contractors to determine whether redactions were necessary. After review by the SBA legal department and contractors, appropriate contract information was to be posted to the SBA Web site.

In our report No. 2018-034 (Finding 4), we noted that, although not required by State law, the SBA had posted some contract information on its Web site; however, we also noted that to enhance transparency SBA management should ensure that the contract information posted on the SBA Web site is up-to-date and complete. As part of our follow-up audit procedures, we compared SBA records for 429 contracts active as of June 30, 2020, with expenditures totaling \$224,907,822, to the contract information on the SBA Web site and noted that:

- As of June 30, 2020, the SBA had not posted 76 contracts, with expenditures totaling \$13,856,194, to the SBA Web site. In response to our audit inquiry, SBA management indicated that time frames for the SBA legal department and contractors to complete their reviews and for SBA contract management to post the information to the Web site had not been established. Consequently, the contracts posted to the SBA Web site as of June 30, 2020, only included SBA contracts with effective dates before November 18, 2019. Notwithstanding, we noted that 57 of the 76 contracts not posted to the SBA Web site had effective dates prior to November 18, 2019, including 48 contracts that had been in effect for a year or more as of that date.

⁹ Section 215.985(14)(h)2., Florida Statutes, defines State entity as an official, officer, commission, board, authority, council, committee, or department of the executive branch of State Government, a State attorney, public defender, criminal conflict and civil regional counsel, or capital collateral regional counsel, the Justice Administrative Commission, the Public Service Commission, and any part of the judicial branch of State Government.

¹⁰ Section 215.985(14)(i), Florida Statutes.

- The SBA Web site still did not include electronic copies of the contract and procurement documents. According to SBA management, the documents were not posted due to the implementation of a new contract management system and other procedural changes and that the SBA Web site was being updated to allow SBA contract and procurement documents to be publicly available.

Timely posting contract information and records to the SBA Web site would enhance transparency and strengthen accountability over government spending.

Recommendation: We recommend that SBA management continue efforts to ensure that contract information, including copies of contract and procurement documents, is timely posted to the SBA Web site.

Finding 3: Retention of Text and Instant Messages

State law¹¹ requires the SBA to maintain public records in accordance with the records retention schedule¹² established by the Department of State, Division of Library and Information Services. The schedule specifies that the retention period for electronic communications, including text and instant messages, are based on the content, nature, and purpose of the messages. Some of the purposes include administrative correspondence (3 fiscal years), program and policy development correspondence (5 fiscal years), and transitory messages, which are to be maintained until obsolete, superseded, or administrative value is lost.

SBA policies and procedures¹³ specified that only instant messaging products authorized by the Director of Information Technology may be used to transmit business-related instant messages on SBA mobile devices.¹⁴ Accordingly, effective June 5, 2019, the SBA implemented an enterprisewide instant messaging application (Application) and instructed employees to use the Application in lieu of personal instant and text messaging applications. Communications sent via the Application are preserved in the SBA's e-mail system for 10 years, regardless of the nature of the communications. According to SBA records, as of March 6, 2020, 23 SBA Apple devices were approved to conduct SBA business.

As part of our audit, we evaluated the effectiveness of SBA mobile device controls, including the retention of instant and text messages. Our audit disclosed that, while the Application had been installed on all SBA Apple devices and SBA management had communicated to staff that the Application was to be used to send or receive business-related messages, the SBA had not disabled text or instant messaging (iMessages) on SBA Apple devices. Consequently, our examination of all SBA Apple device invoices for the period December 19, 2019, through February 18, 2020, disclosed that 856 text messages were sent or received by 16 SBA Apple devices. Additionally, we noted that the SBA had not disabled iMessaging on SBA Apple devices nor established a method to capture and retain text messages and iMessages sent or received outside the Application. Subsequent to our audit inquiry, SBA management indicated

¹¹ Section 119.021(2)(b), Florida Statutes.

¹² State of Florida *General Records Schedule GS1-SL for State and Local Government Agencies*.

¹³ SBA Policy 10-417, *Instant Messaging*.

¹⁴ Mobile devices are portable devices, such as laptop computers, smartphones, and tablets, that allow storage and transmittal of entity data.

that, effective May 2020, iMessages had been disabled on all SBA Apple devices and that the SBA was in the process of disabling text messages on all SBA Apple devices.

Effective controls for ensuring that text and instant messages are only sent or received through approved products would help ensure that messages are transmitted in accordance with management's expectations. Absent such controls, or a verifiable method to capture and retain text and instant messages, such messages may be sent or received and not be retained in accordance with State law, diminishing the SBA's ability to provide access to public records.

Recommendation: We recommend that SBA management enhance mobile device controls to ensure that text and instant messages are only transmitted through approved products and all messages are retained in accordance with State law.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the SBA and the Florida Prepaid College Board had taken corrective actions for the findings included in our report No. 2018-034.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2020 through November 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of the State Board of Administration (SBA) focused on the SBA's administration of the Florida Retirement System (FRS) Investment Plan, including educational services and materials provided to FRS members, and selected administrative activities. For those areas, the objectives of the audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed into operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether SBA and Florida Prepaid College Board management had corrected, or were in the process of correcting, all deficiencies noted in our report No. 2018-034.

In planning and conducting our audit, we assessed whether internal controls were significant to our audit objectives by considering the internal control integrated framework established by the Committee of Sponsoring Organizations (COSO)¹⁵ and adapted for a government environment within the *Standards for Internal Control in the Federal Government* issued by the United States Government Accountability Office. That framework is illustrated in the following table.

COSO Internal Control Integrated Framework

Internal Control Component	Description	Underlying Principles (To be Applied by the SBA Board of Trustees, SBA Management, the Florida Prepaid College Board, and Florida Prepaid College Board Management)
Control Environment	Standards, processes, and structures that provide the basis for carrying out internal control across the organization. Represents the foundation on which an effective internal control system is built.	<ul style="list-style-type: none"> • Demonstrate commitment to integrity and ethical values. • Exercise oversight responsibility. • Establish structures and reporting lines and assign authorities and responsibilities. • Demonstrate commitment to a competent workforce. • Hold individuals accountable for their responsibilities.
Risk Assessment	Management’s process to consider the impact of possible changes in the internal and external environment and to consider actions to mitigate the impact. The basis for how risks will be managed.	<ul style="list-style-type: none"> • Establish clear objectives to define risk and risk tolerances. • Identify, analyze, and respond to risks. • Consider the potential for fraud. • Identify, analyze, and respond to significant changes that impact the internal control system.
Control Activities	Activities in the form of policies, procedures, and standards that help management mitigate risks. Control activities may be preventive in nature or detective in nature and may be performed at all levels of the organization.	<ul style="list-style-type: none"> • Design control activities to achieve objectives and respond to risks. • Design control activities over technology. • Implement control activities through policies and procedures.
Information and Communication	Information obtained or generated by management to support the internal control system. Communication is the dissemination of important information to help the organization meet requirements and expectations.	<ul style="list-style-type: none"> • Use relevant and quality information. • Communicate necessary information internally to achieve entity objectives. • Communicate necessary information externally to achieve entity objectives.
Monitoring	Periodic or ongoing evaluations to verify that the internal control system is present and functioning properly.	<ul style="list-style-type: none"> • Conduct periodic or ongoing evaluations of the internal control system. • Remediate identified internal control deficiencies on a timely basis.

We determined that all components of internal control and underlying principles were significant to our audit objectives.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives; instances of noncompliance with applicable governing laws, rules, or contracts; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of

¹⁵ The Committee of Sponsoring Organizations (COSO) of the Treadway Commission was established in 1985 to develop guidance in the areas of risk and control which enable good organizational governance and reduction of fraud. Pursuant to their mission, COSO developed a framework for internal control that consists of five components and 17 underlying principles.

management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, SBA policies and procedures, and other guidelines, and interviewed SBA personnel to obtain an understanding of FRS Investment Plan processes.
- Obtained an understanding of selected FRS Investment Plan records administrator and *MyFRS* Web site administrator information technology (IT) controls, assessed the risks related to those controls, and reviewed service organization control reports to determine whether selected general and application IT controls for the records administrator's Total Benefit Administration System and the Web site administrator's application services were in place and operating effectively.
- From the population of 2,858 new FRS members whose retirement plan selection period ended in February 2020, examined SBA records for 25 selected new FRS members to determine whether the SBA had established and provided to the members sufficient, appropriate, timely, and impartial retirement plan educational materials and resources in accordance with Section 121.4501(10), Florida Statutes.
- To measure the degree of new FRS member satisfaction with FRS retirement plan educational materials and resources, selected and sent surveys to 1,000 of the 76,056 new FRS members whose retirement plan selection period ended at some point during the period July 2018 through February 2020. We then combined and analyzed the survey responses from the 107 new FRS members who returned the survey.
- From the population of 27 FRS Investment Plan contracts active at some point during the period July 2018 through February 2020, examined SBA records for 5 selected contracts to determine whether the SBA appropriately monitored the contracts in accordance with Section 121.4501(8) and (9), Florida Statutes, and SBA Rule 19-13.001, Florida Administrative Code.
- Analyzed the 22 surveys sent by the SBA to 55,951 FRS members with active elections and default elections during the period April 2019 through February 2020 to determine whether new

FRS member responses indicated that the SBA had appropriately communicated the retirement plan options and provided sufficient educational materials and resources to make an election.

- Analyzed the retirement plan suggestions provided by the FRS interactive plan selection tools by inputting 11 different options into 4 inputs for the *1st Election Choice Service* and 23 options into 5 inputs for the *Help Me Choose Tool* to determine whether the educational materials provided on the *MyFRS* and *ChooseMyFRSPlan* Web sites were appropriate.
- From the population of 152 FRS Investment Plan complaints received and closed during the period July 2018 through February 2020, examined SBA records for 17 selected complaints to determine whether the complaints were appropriately tracked, timely processed, and consistently resolved by complaint type.
- Analyzed the population of 152 FRS Investment Plan complaints received and closed during the period July 2018 through February 2020 to determine whether the SBA had established effective controls to ensure that all complaints were appropriately tracked and retained and modifications to the complaint listing were documented.
- From the population of 15 open or “going to hearing” FRS Investment Plan complaints that were open for at least 31 calendar days as of February 29, 2020, examined SBA records for 5 selected complaints to determine whether the SBA had taken timely and appropriate action to process the complaints and whether the complaints were properly recorded as open or “going to hearing” in SBA records.
- From the population of 66 quarterly FRS Investment Plan investment performance compliance reviews of 11 investment managers completed during the period July 2018 through February 2020, examined SBA records for 8 selected quarterly investment performance compliance reviews of 4 investment managers to determine whether the SBA adequately evaluated the investment managers’ performance for compliance with contract terms and conditions and SBA policies and procedures.
- Obtained an understanding of SBA processes for terminating FRS Investment Plan investment managers for performance issues by interviewing applicable SBA management and reviewing applicable SBA policies and procedures.
- From the population of 193,373 FRS Investment Plan member accounts with contributions totaling \$829,060,907 during the period July 2018 through February 2020, examined SBA records for 25 selected FRS Investment Plan member accounts with contributions totaling \$120,462 to determine whether contributions were received in the correct amounts and properly allocated to the chosen investment products.
- From the population of 105,897 FRS Investment Plan member account distributions totaling \$1,991,507,519 during the period July 2018 through February 2020, examined SBA records for 25 selected FRS Investment Plan member account distributions totaling \$40,339,673 to determine whether distributions were made in accordance with applicable laws, rules, and the Internal Revenue Code.
- From the population of 5,469 FRS Investment Plan member accounts, totaling \$6,412,419, that went into the FRS suspense account at some point during the period July 2018 through February 2020, examined SBA records for 25 selected accounts, totaling \$627,027, that went into suspense to determine whether non-vested FRS Investment Plan member employer contributions were timely transferred to the FRS suspense account upon the member’s separation from FRS employment.
- From the population of 1,853 FRS Investment Plan member suspense account reversing entries, totaling \$1,711,820, completed during the period July 2018 through February 2020, examined SBA records for 25 selected suspense account reversing entries, totaling \$39,632, to determine whether non-vested FRS Investment Plan member employer contributions, including gains and

losses, invested in the FRS Intermediate Bond Fund were restored upon returning to FRS-covered employment.

- Interviewed SBA management, reviewed SBA policies and procedures and reconciliations between the Investment Plan Trust Fund Forfeiture Account and SBA financial records, and traced expenses totaling \$1,064,755 from the Forfeiture Account to SBA financial records to determine whether the usage of forfeiture funds is properly tracked. Additionally, examined SBA Investment Plan Trust Fund Forfeiture Account records for the 2018-19 fiscal year to determine whether the account balance was reduced to at most \$250,000 at fiscal year end.
- Evaluated SBA and Florida Prepaid College Board (Prepaid Board) actions to correct the findings noted in our report No. 2018-034. Specifically, we:
 - Interviewed Prepaid Board management and reviewed Prepaid Board procedures to determine whether the Prepaid Board had designed effective controls for documenting the service organization controls being relied upon and the review of service auditor reports, including follow-up and resolution of reported deficiencies.
 - Reviewed two of the three Prepaid Board service organization contracts active during the period July 2018 through February 2020 to gain an understanding of the services provided by the service organizations and to determine whether the contract terms required the service organizations to provide appropriate service auditor reports.
 - From the population of ten service auditor reports received during the period July 2018 through February 2020, examined Prepaid Board records for three selected service auditor reports to determine whether the service auditor's reporting period was adequate for the Prepaid Board's intended use, Prepaid Board personnel reviewed the service auditor reports to ensure that the reports addressed the controls being relied upon and complementary user entity controls that need to be in place for the service organizations controls to be relied upon, and appropriately followed up on all applicable deficiencies noted in the reports. Additionally, we determined whether the Prepaid Board appropriately addressed any subservice organization controls not covered by the service auditor's report.
 - For the 2,235 Florida Prepaid College Program account owner changes completed during the period July 2018 through February 2020, compared the new owner name to the names of the Records Administrators to determine whether Records Administrators had transferred accounts into their names. Additionally, from the population of 2,235 Florida Prepaid College Program account owner changes completed during the period July 2018 through February 2020, examined Prepaid Board records for 5 selected account owner changes to determine whether the account owner changes were supported by a properly notarized form or entries in the Customer Access Portal.
 - Reviewed SBA policies and procedures for the annual physical inventory process and compared SBA property records to the listing of items included in the physical inventory conducted for the fiscal year ended June 30, 2019, to determine whether SBA management had established effective controls to ensure that all SBA property items were accounted for during the physical inventory process. As of August 31, 2019, the SBA was responsible for 845 property items with acquisition costs totaling \$12,844,328.
 - Reviewed SBA contract reporting policies and procedures and interviewed SBA management to gain an understanding of SBA contract reporting processes and to determine whether SBA management had designed contract reporting procedures that provided for the timely posting of complete contract information on the SBA Web site.
 - From the population of 1,306 contracts active as of June 30, 2020, with expenditures totaling \$1,534,564,359, compared SBA records for 429 contracts, with expenditures totaling \$224,907,822, to the contract information on the SBA's Web site to determine whether

contracts were timely posted to the SBA Web site. Additionally, reviewed the SBA's Web site to ensure contracts included all required downloadable fields and attachments.

- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing SBA operations.
- Observed, documented, and evaluated the effectiveness of selected SBA processes and procedures for:
 - The administration of purchasing cards in accordance with applicable guidelines. As of February 28, 2020, the SBA had 203 active purchasing cards.
 - The assignment and use of mobile devices with related costs totaling \$52,672 during the period July 2018 through January 2020. Additionally, interviewed SBA management and examined SBA records related to the SBA's text and instant message retention application to determine whether the SBA had established adequate controls to retain text and instant messages in accordance with State law.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General

NEW FRS MEMBER SURVEY QUESTIONS

New Hire Orientation

1. Did you receive Florida Retirement System (FRS) educational materials and information to help you select your retirement plan during the new hire orientation period?
2. Did you feel that the educational materials and information received during your new hire orientation were adequate to select a retirement plan?
3. If you did not receive FRS educational materials or the educational materials were not adequate, please briefly describe the deficiencies and provide suggestions for improvement.

Subsequent Contacts

4. Did you feel that the SBA timely provided FRS educational materials and resources (e.g. mail and e-mail communications) throughout your retirement plan selection?
5. Did you encounter any problems accessing the educational materials and resources provided by the SBA? If you answered 'Yes', please provide a brief description of the problem(s) encountered.

Impartiality of Information

6. Did you feel that the educational materials and resources provided by the SBA regarding the retirement plan options were impartial? If you answered 'No', please provide a brief explanation as to how the educational materials and resources provided were not impartial.

MyFRS Web site Information

7. If you accessed the *MyFRS* Web site during the retirement plan selection process, did the Web site provide adequate information to help you select a retirement plan? If you answered 'No', please provide a brief description of the deficiencies and provide suggestions for improvement.

Sufficiency of *MyFRS Financial Guidance Line* Information

8. If you called the *MyFRS Financial Guidance Line* during the retirement plan selection process, was the SBA representative able to provide adequate information to help you select a retirement plan? If you answered 'No', please provide a brief description of the problem(s) encountered and provide suggestions for improvement.

MANAGEMENT'S RESPONSE



STATE BOARD OF ADMINISTRATION OF FLORIDA

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ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

February 22, 2021

Ms. Sherrill F. Norman
Auditor General, State of Florida
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Dear Ms. Norman:

Our responses to the preliminary and tentative findings and recommendations which may be included in your report on the FRS Investment Plan Operational and Follow-up on the findings reported in report No. 2018-034 of the State Board of Administration are discussed below:

Finding No. 1: **New FRS Member Satisfaction**

Recommendation: We recommend that SBA management continue efforts to provide quality educational services to FRS members and evaluate the understandability and adequacy of FRS new hire educational materials and information to ensure that it promotes informed retirement plan selections.

Response: The SBA reviews all of its educational materials at least annually to ensure they are in compliance with all rules and laws, are not biased towards either retirement plan, and are understandable to the FRS membership. An ongoing, monthly survey is conducted of all new hires who have just completed the initial election period to determine their satisfaction with the educational materials available to them to make their retirement plan election. These survey results, plus conducting occasional focus groups of FRS members, will assist us in continuing to improve the educational materials going forward.

Finding No. 2: **Contract Information Reporting**

Recommendation: We recommend that SBA management continue efforts to ensure that contract information, including copies of contract and procurement documents, is timely posted to the SBA Web site.

Response: SBA management concurs with the recommendation and will continue efforts to more timely post contract information, including copies of documents. During the course of the audit, SBA completed website enhancements and has begun posting documents. SBA has also modified its contract procedures to facilitate more timely posting of contract information to the website.

**Finding No. 3:
Retention of Text and Instant Messages**

Recommendation: We recommend that SBA management enhance mobile device controls to ensure that text and instant messages are only transmitted through approved products and all messages are retained in accordance with State law.

Response: SBA management concurs with the recommendation and is exploring third party solutions that will ensure the capture and retention of all SMS text messages on all SBA owned mobile devices.

Please feel free to contact us if you have any questions or need additional information.

Sincerely,



Ashbel C. Williams

ACW/apw