



CHIEF FINANCIAL OFFICER  
**JEFF ATWATER**  
STATE OF FLORIDA

November 4, 2015

Mr. Ken Detzner, Secretary  
Department of State  
R. A. Gray Building  
500 South Bronough Street  
Tallahassee, Florida 32399-0250

Dear Secretary Detzner:

The Bureau of Auditing (Bureau) performs audits in accordance with section 17.03, Florida Statutes (F.S.). This statute relates to the Chief Financial Officer's (CFO) responsibilities to settle the claims of the state using various methods. The Bureau also audits pursuant to the requirements of section 215.971, F.S., for grant agreements funded with Federal and State monies. Audits on contractual services agreements are audited pursuant to sections 287.057 and 287.058(1), F.S. The CFO also issues memorandums that provide additional audit requirements.

The Bureau audits contracts and grants to determine whether:

- The agreement contains a scope of work that clearly establishes the tasks to be performed by the provider;
- The agreement defines quantifiable, measurable, and verifiable units of deliverables that must be received and accepted before payment is made;
- The agreement specifies the financial consequences that the agency must apply if the provider fails to perform in accordance with the contract;
- The agreement contains provisions of section 287.058, F.S.; and
- The manager provided written certification for the receipt of goods and services.

Because many of the deficiencies in agency contract and grant agreements stem from poor contract management and a lack of effective monitoring, the Bureau visits agencies and reviews contracts, along with the contract managers' files. In addition to reviewing the contract document, the Bureau evaluates the contract management function to determine if the agency is monitoring the contractor's performance and validating the actual delivery of goods and services.

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

Christina Smith • Director

Division of Accounting and Auditing

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These audits result in written reports to the agency, with the agency providing a corrective action plan to address any deficiencies noted during the review. To date, 34 audits have been completed and the results are available on the Bureau website at [http://www.myfloridacfo.com/aadir/auditing\\_activity.htm](http://www.myfloridacfo.com/aadir/auditing_activity.htm).

An audit of 18 Department of State (Department) agreements was performed in 2011, resulting in a contract management deficiency rate of 22.22 percent (22%). In response, the Department submitted a corrective action plan (CAP). As a follow-up, we have concluded our audit of selected Department contracts and grants active July 1, 2014 through June 30, 2015, and related management activities. Our audit focused on compliance with the CAP and the following statutory requirements:

- Contract/grant agreements must contain a clear scope of work.
- Contract/grant agreements must contain deliverables that are quantifiable, measurable, verifiable and directly related to the scope of work.
- Contract/grant agreements must contain financial consequences that an agency must apply if the provider fails to perform in accordance with the agreement.
- Contract/grant agreements contain all other provisions of section 287.058, F.S. or section 215.971, F.S.
- Agencies must comply with the provisions of section 216.3475, F.S., and related CFO Memoranda.
- Contract/grant managers must complete training as required by statute.
- Contract/grant managers must enforce performance of the agreement terms and conditions; review and document all deliverables for which payment is requested by service providers; and provide written certification of the Department's receipt of goods and services.

Our audit included a review of 10 agreements totaling \$4,447,404. Nine (9) of the 10 agreements were reviewed to determine if required contract provisions were included. There were no contract findings at this time. Additionally, we reviewed the contract management files for all 10 agreements. There were areas where improvements can be made. A summary of our review is included as Attachment A.

### **Contract/Grant Management**

Contract and grant managers must enforce performance of the contract terms and conditions, review and document all deliverables for which payment is requested, provide written certification of the Department's receipt of goods and services, and ensure all payment requests are certified.

Our audit disclosed that the Department had Grant management deficiencies with nine (9) agreements. Specifically, the following was noted:

#### **Verification of Expenditures**

- The Department did not provide evidence the expenditures were verified as required by Comptroller Memorandum No. 01 (1997-98) and the Reference Guide for State Expenditures, for three (3) cost reimbursement agreements totaling \$1,725,000. The Department reimbursed costs based on provider submitted expenditure logs without confirming the expenditures were incurred and whether the expenditures were allowable, reasonable, and necessary for the completion of the services.
  - **Friends of the Military Museum**
  - **Historical Association of Southern Florida, Inc.**
  - **St. Augustine Lighthouse and Museum**

#### **Advance Payments**

- The contract management files for two (2) agreements did not contain evidence that the Department verified, at the time of the advance, the deposit of advanced payments totaling \$368,750. The agreement requires interest earned on advanced funds placed in an interest bearing account to be returned to the Department quarterly or when the accrued interest totals more than \$100. Without confirmation of the disposition of the advanced funds at the time of the advance, the Department would not know if and when earned interest was to be returned.
  - **Friends of the Military Museum**
  - **Panhandle Library Access Network**

### Recipient/Sub-recipient vs. Vendor Determination

Prior to execution of an agreement, state agencies must determine whether they are awarding state financial assistance to a recipient, or procuring goods and services from a vendor. CFO Memorandum No. 03 (2014-2015) and section 69I-006, Florida Administrative Code, requires state agencies, recipients, and sub-recipients that provide state financial assistance to non-state organizations to complete the Florida Single Audit Act Checklist for Non-State Organizations – Recipient/Sub-recipient vs. Vendor Determination (checklist) and retain a copy of the completed checklist in their files.

- The Department did not complete the checklist prior to execution of the following six (6) agreements totaling \$2,948,724.

- **Archbold Expeditions**
- **Flagler College**
- **Friends of the Military Museum**
- **Historical Association of Southern Florida, Inc.**
- **St. Augustine Lighthouse and Museum**
- **Tallahassee Little Theatre**

### Cost Analysis

Section 216.3475, F.S. requires state agencies to maintain records to support a cost analysis, which includes a detailed budget submitted by the entity awarded funding and the agency's documented review of the individual cost elements from the submitted budget for allowability, reasonableness and necessity. This includes any agreements executed on or after July 1, 2010, which were awarded on a noncompetitive basis.

- The Department did not provide documented evidence that a cost analysis was performed prior to the execution of three (3) agreements, totaling \$1,775,000.

- **Flagler College**
- **Friends of the Military Museum**
- **Historical Association of Southern Florida, Inc.**

### Risk Assessment

The Department's Office of Cultural, Historical and Information Programs Grants Risk Assessment requires program managers to perform a risk assessment on all grants within one (1) month of awarding the funds.

- The Department did not provide documented evidence that a risk assessment was performed for the following five (5) agreements, totaling \$2,473,724.
  - **Archbold Expeditions**
  - **Flagler College**
  - **Friends of the Military Museum**
  - **Historical Association of Southern Florida, Inc.**
  - **St. Augustine Lighthouse and Museum**

### Expenditures Outside Terms of Agreement

Section 215.971(1)(d), F.S., requires that a recipient or sub-recipient of state financial assistance expend funds only from obligations incurred during the specified agreement period. One (1) cost-reimbursement agreement had an effective date of October 1, 2014. The Department approved payments to the provider for costs incurred in September, 2014, one (1) month prior to the effective date of the agreement.

- **Southwest Florida Library Network**

### Internal Controls

The Department did not practice proper segregation of duties regarding payments totaling \$400,000 made to one (1) grant. The Grant Manager certified deliverables, requested payment, and subsequently obtained and mailed the warrant.

- **Panhandle Library Access Network**

### Contract Manager Training

Section 287.057(14) F.S., requires that each contract manager who is responsible for agreements in excess of the threshold amount for CATEGORY TWO under section 287.017, F.S., must, at a minimum, complete training conducted by the CFO for accountability in contracts and grant management. At the time of our audit, the Contract Manager for one (1) CATEGORY TWO

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agreement had not attended Advancing Accountability training since October 20, 2010, which is more than two (2) years beyond the timeframe required by CFO Memorandum No. 04 (2014-2015) and CFO Memorandum No. 4 (2009-2010). However, the contract manager did recently attend the Florida Certified Contract Manager training September 29-30, 2015.

- **Broward County Supervisor of Elections**

Please provide the Department's corrective action plan which addresses how these deficiencies will be corrected for future contracts. This plan should include steps the Department will take to provide a system of quality control, including training, periodic management review, and feedback to Department staff that develop and manage contracts and grants. We request that the plan be submitted within 30 days of receipt of this letter.

We appreciate your staff's support and cooperation during the audit. Please contact Mark Merry, Chief of the Bureau of Auditing, at [REDACTED] if you have any questions.

Sincerely,

[REDACTED]

Christina Smith

**Attachment A**

**Department of State**

				Contract/Grant Agreement						TOTAL NUMBER OF AREAS WITH DEFICIENCIES
Agreement Number	Service Provider	Contract Amount	Agreement Type	Scope of Work/Deliverables	Financial Consequences	State and Federal Financial Assistance	Other	Contract/Grant Management	Cost Analysis	
SC402	Archbold Expeditions	\$348,724	Grant Agreement	Y	Y	Y	NA	N	Y	1
MOA 2014-2015-0001-BRO	Broward County Supervisor of Elections	\$286,680	Grant Agreement	Y	Y	Y	NA	N	Y	1
SC406	Flagler College	\$400,000	Grant Agreement	Y	Y	Y	NA	N	N	2
158-9913	Friends of the Military Museum	\$1,075,000	Grant Agreement	N/A*	N/A*	N/A*	N/A*	N	N	2
15-9906	Historical Association of Southern Florida	\$300,000	Grant Agreement	Y	Y	Y	NA	N	N	2
14-LSTA-A-07-A	Northeast Florida Library Information	\$412,000	Grant Agreement	Y	Y	Y	NA	Y	Y	0
15-LCG-02	Panhandle Library Access Network	\$400,000	Grant Agreement	Y	Y	Y	NA	N	Y	1
15-LCG-04	Southwest Florida Library Network	\$400,000	Grant Agreement	Y	Y	Y	NA	N	Y	1
SC507	St. Augustine Lighthouse and Museum	\$350,000	Grant Agreement	Y	Y	Y	NA	N	Y	1
15.9.200.598	Tallahassee Little Theatre Inc.	\$475,000	Grant Agreement	Y	Y	Y	NA	N	Y	1
<b>TOTAL NUMBER OF AGREEMENTS WITH DEFICIENCIES</b>				<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>3</b>	<b>12</b>

NA - Not applicable

N/A\* - Contract was reviewed by the Bureau of Auditing prior to this audit