



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

August 16, 2016

Jonathan P. Steverson, Secretary
Department of Environmental Protection
3900 Commonwealth Boulevard
Mail Station 10
Tallahassee, Florida 32399

Dear Secretary Steverson:

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 conducts on-site reviews of contracts and 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 contractors' performance and validating the actual delivery of goods and services. 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, 40 audits have been completed and

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the results are available on the Bureau website,
http://www.myfloridacfo.com/aadir/auditing_activity.htm.

The Bureau conducted an audit of 21 Department of Environmental Protection (Department) agreements in 2012. Our audit disclosed a contract deficiency rate of 62 percent and a management deficiency rate of 33.33 percent. In response, the Department submitted a corrective action plan (CAP). As a follow-up to ensure corrective actions were implemented and operating effectively, we have concluded our audit of selected Department contracts and grants active November 01, 2015 through May 30, 2016 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 Agency's receipt of goods and services.

Our audit included a review of ten (10) agreements totaling \$46,902,080. Five (5) of the agreements were reviewed to determine if required contract provisions were included. We found only one (1) agreement that needed improvement. Additionally, we reviewed the contract management files for all ten (10) agreements. There were areas where improvements can be made. A summary of our review is included as Attachment A and B.

Contracts / Grant Agreement

The grant agreement with the **Florida Oceanographic Society** to restore oyster reefs and sea grass habitats in the St. Lucie Estuary, Caloosahatchee Estuary and the Indian River Lagoon did not contain a provision requiring the provider to refund unobligated funds and funds paid in excess of the amount to which the recipient is entitled as required by subsections 215.971(1)(e) and (f), Florida Statutes.

Contract/Grant Management

Inadequate Verification

The Department was unable to provide evidence that invoices submitted by the **Town of Longboat Key** (Town) were verified prior to approving payment. The grant agreement required the Department to reimburse costs associated with restoring Longboat Key beaches and controlling erosion. The Town executed agreements with sub-contractors to provide engineering, construction and environmental impact services. Travel expenses were to be reimbursed in accordance with Section 112.061, F.S. The auditor compared three (3) paid invoices to the expenditure reports and supporting expense documentation that was submitted with the invoice. The Department reimbursed travel that was calculated using rates greater than the rates established in Section 112.061, F.S. or that was submitted as a lump sum amount without the detailed supporting documentation to substantiate the charges.

The Department was unable to provide evidence that the supporting documentation for invoices submitted by the **United States Department of Agriculture, Animal, Plant, Health Inspection Services Wildlife Services (USDA)** was reviewed to ensure the expenses were allowable, reasonable and necessary prior to reimbursement. The agreement required the **USDA** to provide predator control in an effort to protect shorebird and sea turtle nesting sites. The auditor reviewed expenditure documentation submitted for 10 invoices totaling \$328,896. The following issues were identified:

- The agreement required the “submission of invoices for work performed under the scope of work and based on the Financial Plan.” The agreement’s Financial Plan allowed for salary costs of six positions and included maximum hours and hourly rates but did not include a provision for overtime expenses. Of the six positions listed in the financial plan, no one position was allocated more than 1,080 hours annually, which is equivalent to approximately half a work week. However, the Department paid \$1,274 at time and a half.
- The Department paid payroll expenses based on weekly time and activity logs that included hours worked but did not always identify the work performed. Without the completed activity logs, the Department does not have the necessary information to verify that the work performed was in accordance with the agreement.
- Although submitted invoices provided evidence that **USDA** personnel were performing services for at least four (4) USDA programs that should share utilization of the same personnel and equipment, the Department did not consistently allocate costs across these programs. For example:

- The Department reimbursed 100% of costs for the purchase of six (6) handheld GPS devices, cages, stoves, cookware, cameras and miscellaneous equipment expenses. There was no evidence that the use of these devices and equipment was exclusive to this agreement.
 - The Department reimbursed repairs, tire purchases and general maintenance for trucks and RV's at 100% of costs. Time and activity logs identified the transfer of an RV from the South District to the North District for which RV replacement parts were purchased a month later. Although USDA is providing services exclusively in the North District under this agreement, the Department reimbursed the provider for the parts at 100% of the cost without allocating across program areas.
 - Although the Financial Plan included personnel who were assigned to the project on a part-time basis, the Department reimbursed 100% of costs for clothing items such as pants, shirts, and jackets. Furthermore, clothing was not included in the agreement's financial plan.
- The Department reimbursed expenditures evidenced by receipts that were illegible or contained only the item number. The Department was unable to identify the items purchased or to provide an explanation for the purchases. The Department does not have reasonable assurance that the items purchased were in accordance with the terms of the agreement.
- According to the Reference Guide for State Expenditures, reimbursement for personal convenience items is not an authorized use of State funds. The Department reimbursed the provider for items such as boots, boot dryers, pocket knives, pocket hand warmers, car wash supplies, sunscreen and other personal use items. When inquiring about the location of the boot dryer, the Department stated that it was in the possession of a single employee.
- The Wildlife Services' Directive 3.102 (Directive) provides the authority for USDA to enter into mutual interest agreements with non-federal entities and provides indirect cost rates and associated rules. The agreement with USDA requires the Department to reimburse indirect costs at a flat rate of 16.15%. The Department reimbursed indirect costs charged to the agreement as direct costs resulting in duplicate payments. For example:
- Wildlife Services' Directive 3.102 states that expenses for general trainings are indirect costs. The Department reimbursed gas for a training

trip in Michigan as well as the expenses for a trainer to provide Geographical Information System instruction to USDA field personnel as direct costs.

- Printers, printer ink, general office supplies and an office chair were reimbursed as direct costs in addition to paying the provider the indirect cost rate.
- The Financial Plan did not identify salaries for administrative personnel as an allowable direct cost; however, the Department reimbursed administrative salaries as direct costs even though these costs are identified in the Directive as indirect cost.

Documentation

Chief Financial Officer (CFO) Memorandum No. 6 (2011-2012) requires the Department to document the contract manager's activities to verify that the deliverables were received and were in compliance with the criteria established in the agreement.

- The agreement with **Sunset Marina** provided funding through the Federal Clean Vessel Act for the construction, renovation, operation and maintenance of waste reception facilities necessary to keep coastal and river waters clean. For the three (3) invoices selected for audit, the contract management file did not contain documentation to evidence the contract manager's verification that the deliverables were met prior to payment of the invoices.
- Likewise, for two (2) of the three (3) invoices reviewed by the auditor for services provided under the agreement with the **Florida Oceanographic Society**, the contract management file did not contain documentation of the contract manager's verification of deliverables. The Department stated that checklists were developed for contract managers to use during the payment review process but were not always utilized or retained in the contract management file.

Monitoring

CFO Memorandum No. 6 (2011-2012) requires the Department to have a formal contract monitoring process that includes an established monitoring plan, monitoring procedures and criteria, and evidence to support conclusions reached during its monitoring process. The Department could not provide evidence to support monitoring of performance measures for two (2) agreements.

- **The City of Jacksonville (City)** administers the petroleum restoration program on behalf of DEP by providing field management and oversight by city personnel. The City currently manages the cleanup activities for approximately 750 petroleum contaminated sites. The Department pays a monthly fixed amount for time and effort. The agreement requires the Department to perform an annual review of twenty-five percent (25%) or a percentage at the Department's discretion, of the site files for documentation, administration and technical requirements. The Department stated that onsite monitoring was conducted; however, a monitoring plan or tool and documentation to support the conclusions made during the monitoring site visits was not provided.
- The Department conducted on site monitoring visits of the **Florida Oceanographic Society** and provided photographs upon the auditor's inquiry; however, there was no evidence to support a review of files or expenses, and there was no documentation of the Department's monitoring activities found in the contract management file.

Due to the lack of written procedures requiring the creation and use of a formalized monitoring plan and reports, the Department cannot have reasonable assurance that the provider is in compliance with the agreement terms.

Cost Analysis

Section 216.3475, F.S. and CFO Memorandum No. 2 (2012-2013), requires agencies to perform a cost analysis for contracts awarded on a noncompetitive basis. Each agency shall maintain records to support a cost analysis, which includes a detailed budget submitted by the person or entity awarded funding and the agency's documented review of individual cost elements from the submitted budget for allowability, reasonableness, and necessity.

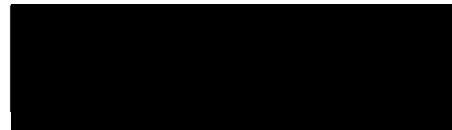
- The Department provided a cost analysis for **Sunset Marina** stating that the costs were in alignment with previously awarded contracts; however, there was no documentation included to support the conclusions stated on the Department's internal cost analysis forms.
- The Department had not completed a cost analysis prior to the execution of the agreement with **USDA**. Broad expense categories in the agreement's financial plan did not clearly identify allowable expenses within each category and did not satisfy the requirement of section 216.3475, F.S. There was no evidence that expenses were pre-evaluated for compliance with the Reference Guide for State Expenditures to determine if they were allowable, reasonable or necessary. The Department has since completed an analysis

dated June 14, 2016; however, did not include documentation to support the conclusions drawn.

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

We would like to thank your staff for their support and cooperation and extend an invitation to our contract manager training for staff that have not attended and for those who would like to attend again. If you have any questions, please contact Mark Merry at 850-413-3074.

Sincerely,

A solid black rectangular box used to redact the signature of Christina Smith.

Christina Smith

Attachment A
Department of Environmental Protection
Contract/Grant Agreement

Agreement Number	Service Provider	Contract Amount	Agreement Type	Scope of Work	Deliverables	Financial Consequences	State and Federal Financial Assistance	Legal Compliance	Annual Appropriation Contingency Statement	TOTAL NUMBER OF AREAS WITH DEFICIENCIES
13Pi1	Pinellas County Board of County Commissioners	\$5,264,162	Grant	NA*	NA*	NA*	NA*	NA*	NA*	0
S0902	Florida Oceanographic Society	\$394,866	Grant	Y	Y	Y	N	NA	NA	1
S0481	City of Jacksonville	\$7,468,845	Grant	Y	Y	Y	Y	Y	Y	0
LP44050 / Y0150	Village of Islamorada	\$27,000,000	Grant	NA*	NA*	NA*	NA*	NA*	NA*	0
14ME2	Town of Longboat Key	\$2,431,892	Grant	Y	Y	Y	Y	Y	Y	0
RM1412	USDA / APHIS / WS	\$1,000,000	Standard Three Party Agreement by Statute	NA*	NA*	NA*	NA*	NA*	NA*	0
AA3690	Enviro-Pro-Tech	\$310,914	Purchase Order	Y	Y	Y	Y	Y	Y	0
MV144	Sunset Marina, Inc.	\$239,912	Grant	NA*	NA*	NA*	NA*	NA*	NA*	0
HW548	University of Florida	\$978,989	Standard Two Party Agreement by Statute	NA*	NA*	NA*	NA*	NA*	NA*	0
LP26033 / Y0188	City of Labelle	\$1,812,500	Grant	NA*	NA*	NA*	NA*	NA*	NA*	0
TOTAL NUMBER OF AGREEMENTS WITH DEFICIENCIES				0	0	0	1	0	0	1

NA* - Contract was reviewed by the Bureau of Auditing prior to this audit.

Attachment B
Department of Environmental Protection
Contract/Grant Management

Agreement Number	Service Provider	Contract Amount	Agreement Type	Payment Certification	Provider Documentation	Verification Activities Documented	Adequate Verification & Monitoring	Financial Consequences	Cost Analysis	Other	TOTAL NUMBER OF AREAS WITH DEFICIENCIES
13Pi1	Pinellas County Board of County Commissioners	\$5,264,162	Grant	Y	Y	Y	Y	Y	N/A	N/A	0
S0902	Florida Oceanographic Society	\$394,866	Grant	Y	Y	N	N	Y	Y	N/A	2
S0481	City of Jacksonville	\$7,468,845	Grant	Y	Y	Y	N	Y	Y	N/A	1
LP44050 / Y0150	Village of Islamorada	\$27,000,000	Grant	Y	Y	Y	Y	Y	N/A	N/A	0
14ME2	Town of Longboat Key	\$2,431,892	Grant	Y	Y	Y	N	Y	N/A	N/A	1
RM1412	USDA / APHIS / WS	\$1,000,000	Standard Three Party Agreement by Statute	Y	Y	Y	N	Y	N	N/A	2
AA3690	Enviro-Pro-Tech	\$310,914	Purchase Order	Y	Y	Y	Y	Y	N/A	N/A	0
MV144	Sunset Marina, Inc.	\$239,912	Grant	Y	Y	N	Y	Y	N	N/A	2
HW548	University of Florida	\$978,989	Standard Two Party Agreement by Statute	Y	Y	Y	Y	Y	N/A	N/A	0
LP26033 / Y0188	City of Labelle	\$1,812,500	Grant	Y	Y	Y	Y	Y	N/A	N/A	0
TOTAL NUMBER OF AGREEMENTS WITH DEFICIENCIES				0	0	2	4	0	2	0	8

NA* - Contract was reviewed by the Bureau of Auditing prior to this audit.