



FLORIDA DEPARTMENT *of* STATE

RICK SCOTT
Governor

KEN DETZNER
Secretary of State

December 2, 2015

Christina Smith, Director
Florida Department of Financial Services
Division of Accounting and Auditing
200 East Gaines Street
Tallahassee, Florida 32399-0353

RE: Audit of selected Department of State contracts and grants active July 1, 2014 through June 30, 2015, and related management activities

Dear Ms. Smith:

Attached is the Department of State's corrective action plan that addresses how these deficiencies will be corrected for future contracts associated with your audit of selected Department of State contracts and grants active July 1, 2014 through June 30, 2015, and related management activities.

If you have questions or require additional information, please contact Jennifer Kennedy Assistant Secretary of State, at [REDACTED]. Thank you for the opportunity to respond to your report.

Sincerely,

[REDACTED]

Ken Detzner
Secretary of State

Attachment

- cc. Jennifer Kennedy, Assistant Secretary of State and Chief of Staff
John Boynton, Deputy Secretary for Administrative Services, Corporations and Elections
Kerri Post, Deputy Secretary for Cultural Affairs, Historical Resources and Library and Information Services
John L. Greene, Inspector General



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**CORRECTIVE ACTION PLAN FOR
DEPARTMENT OF FINANCIAL SERVICES AUDIT OF SELECTED
DEPARTMENT OF STATE CONTRACTS AND GRANTS ACTIVE
JULY 1, 2014 THROUGH JUNE 30, 2015, AND RELATED MANAGEMENT ACTIVITIES
DECEMBER 2015**

Contract/Grant Management

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**

Agency's Response: Grant Managers, staff reviewers, and panelists will continue to verify that all costs included on the contract budget are allowable, reasonable, and necessary, and that all expenditures submitted for reimbursement reflect the costs in the approved contract budget. In order to increase oversight, all new cost reimbursement agreements beginning with FY 2016-17 grants will stipulate that grantees provide fiscal documentation for major expenditures as defined in each agreement to confirm the expenditures were incurred and were allowable, reasonable, and necessary in order to receive payment. The Department will develop and institute new grant policies and procedures in spring 2016 with a clearly defined sampling methodology and a formal contract monitoring process that will specify documentation requirements. Current contract language that was drafted in consultation with DFS staff requires all grantees to submit an expenditure log for payment and to maintain detailed documentation of all grant expenditures. For the remaining payments on current cost reimbursement contracts, grant managers will request documentation to support major expenditures, and grantees will be required to certify that all expenditures have been incurred and were necessary for completion of services when submitting their final expenditure log. The functionality for all grantees to upload documentation that verifies expenditures with their payment requests will be integrated into the Department's new online grant management system scheduled to launch in 2017, which will increase oversight through the collection of additional documentation.

Advance Payment

- 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.

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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**

Agency's Response: In order to properly track interest from advanced payments, Grant Managers will enhance their monitoring procedures to ensure interest is returned to the Department as needed. Contract language will be updated, and grantees required to invest the advance in an interest-bearing account will be asked to provide confirmation of the disposition of the advanced funds at the time of the advance.

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**

Agency's Response: The grant guidelines and eligibility requirements ensure that all grants are for awarding state financial assistance to a recipient. In order to maintain compliance with CFO Memorandum No. 03 (2014-2015) and section 69I-006, Florida Administrative Code, the Florida Single Audit Act Checklist for Non-State Organizations – Recipient/Sub-recipient vs. Vendor Determination will be completed for all grantees prior to execution of grant agreements.

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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.**

Agency's Response: Grant Managers work with recipients to create project budgets for financial assistance recipients that are awarded by the Florida Legislature outside of the established competitive grant application process. During this process, Grant Managers will complete a cost analysis checklist for financial assistance awarded on a noncompetitive basis and retain documentation in agency files to support that individual cost elements are allowable, reasonable, and necessary.

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**

Agency's Response: The Department will update its Grants Risk Assessment Procedures to apply to all grants and also include financial assistance awarded by the Florida Legislature outside of the established competitive grant application process. Each Division will assess risk on all projects based on current and past performance, experience of the grantee, staff and panelist recommendations, and amount of the award. Documentation of each Division's Grants Risk Assessments will be maintained and monitored by the Department's Grants Coordinator. The Risk Assessment

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Procedures will also be integrated into the Department's new online grant management system scheduled to launch in 2017. Risk assessments have been completed by all Divisions and supplied to the Department's Grants Coordinator for FY 2015-2016 grants.

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**

Agency's Response: After this clerical error was brought to the attention of Bureau of Library Development staff, additional receipts were submitted by the grantee to correct the error and ensure that all payments supported costs incurred within the grant period. The Department will institute additional checks and controls in the payment process to make certain that payments are made for expenditures incurred during the specified agreement period.

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**

Agency's Response: Staffing circumstances in the Division of Library and Information Services that impacted the segregation of duties have been resolved, and the Division has modified the grant payment process. The Finance and Accounting office will now obtain and mail the warrant. The grant payment process will be further enhanced in 2017 with the launch of the Department's new online grant management system, which will provide additional oversight.

Contract Manager Training:

Section 287.057(14) F.S., requires that each contract manager who is responsible for

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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 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**

Agency's Response: While the Grant Manager and her supervisor attempted to sign up for the classes, they were unsuccessful in scheduling due to the limited availability of class sessions. The Grant Manager is now a Florida Certified Contract Manager and in compliance with CFO Memorandum No. 04. The Department's Grants Coordinator will coordinate with the Grant Managers in each Division to ensure that they are in compliance with all training requirements for the agreements that they manage.