



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

May 8, 2015

Mr. Robert Kneip, Chief of Staff
Department of Financial Services
200 East Gaines Street
Tallahassee, Florida 32399-0370

Dear Mr. Kneip:

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 reviews contracts and grants to determine whether:

- The agreement clearly establishes the tasks to be performed by the provider (has a clearly defined scope of work);
- 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 §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 manager's 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. These audits result in written reports to the agency, with the agency providing a corrective action plan to address any deficiencies noted during the audit. To date, 27 have been completed and the

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

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results are available on the Division of Accounting and Auditing website
http://www.myfloridacfo.com/aadir/auditing_activity.htm.

An audit of 21 Department of Financial Services (Department) agreements was performed in 2011, resulting in a contract management deficiency rate of 9.52 percent. In response, the Department submitted a corrective action plan (CAP). As a follow-up, we have concluded our audit of selected contracts in effect on or after July 1, 2013 through July 1, 2014, and related management activities. Our audit focused on the Department's compliance with the CAP and the following statutory requirements:

- Contract agreements must contain a clear scope of work.
- Contract agreements must contain deliverables that are quantifiable, measurable, verifiable and directly related to the scope of work.
- Contract agreements must contain financial consequences that an agency must apply if the provider fails to perform in accordance with the agreement.
- Contract agreements contain all other provisions of §287.058 F.S. and related CFO Memoranda.
- Contract managers must complete training as required by statute.
- Contract 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 receipt of goods and services by the Department.

A total of 11 agreements were selected for audit. Of those selected, eight (8) agreements were reviewed to determine if each agreement contained all the required contract provisions. Additionally, the contract management files for all 11 agreements were reviewed for management activities which resulted in a contract management deficiency rate of 18 percent (18%). There are areas where improvements can be made. Attachment A provides a summary of all 11 agreements audited.

Agreement – Other

The Department executed an agreement with **Milliman USA** without verifying the agreement's payment terms were in compliance with the state term contract. The agreement was procured from State Term Contract #973-020-07-1 that establishes hourly rates for actuarial services. The Department's purchase order was for a fixed price of \$50,000 for Milliman USA to produce a final report of the actuarial study. The Department did not perform an evaluation to ensure the fixed price did not exceed the state term contract hourly rates.

Contract Management

Contract 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 contract management deficiencies with one (1) agreement. Specifically, the following was noted:

- The Department did not document their verification of the services invoiced by **Tal Search Group, Inc.** prior to certifying payment. The agreement establishes a fixed unit rate of payment for each email address included in the Dollars and Sense database at the end of each month. The Department's verification of the invoice against the number of email addresses contained in the database was not evident in the contract manager's file.

Contract Management - Other

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 must, at a minimum, complete training conducted by the CFO for accountability in contracts and grant management. Effective December 1, 2014, contract managers responsible for contracts valued in excess of \$100,000 annually are required to complete training in contract management and become a certified contract manager.

- The Contract Manager for **Global Information Services** had not attended Advancing Accountability training within the timeframe required by CFO memoranda. Contract managers who attended Advancing Accountability prior to January 1, 2014, are required to attend training every two (2) years. Those who have attended training since January 1, 2014, must attend training every four (4) years.

Pursuant to section 287.057(14), F.S., the contract manager would now be required to complete the Florida Certified Contract Manager training since the value of the agreement exceeds \$100,000.

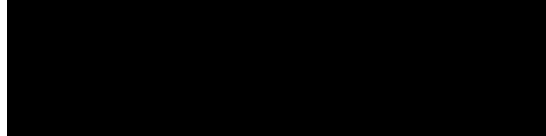
Please provide the Department's corrective action plan which addresses how these deficiencies will be corrected for future contracts. This plan should include steps the Department will take to provide a system of quality control, including training, periodic management review, and feedback to staff that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

Our office provides contract manager training that would be beneficial to your staff. Additional information on these classes is available at

<http://www.myfloridacfo.com/aadir/AuditingTraining.htm>

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,

A large black rectangular redaction box covering the signature area.

Christina Smith

cc: Teresa Michael
Inspector General
Department of Financial Services

Attachment A
Department of Financial Services

				Contract/Grant Agreement						
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	TOTAL NUMBER OF AREAS WITH DEFICIENCIES
TR140	BANK OF AMERICA NA	OPEN	Standard Two Party Agreement by Statute	NA*	NA*	NA*	NA*	Y	NA*	0
PO325917	BRANDT INFORMATION SERVICES, INC.	\$363,600	Purchase Order	Y	Y	NA	Y	Y	NA	0
PO126434	CREATIVE CONSULTING CO.	\$572,300	Purchase Order	NA*	NA*	NA*	NA*	Y	NA*	0
RM041	CS STARS LLC	\$5,183,329	Standard Two Party Agreement by Statute	Y	Y	NA	Y	Y	NA	0
PO325605	GLOBAL INFORMATION SERVICES	\$315,861	Purchase Order	NA*	NA*	NA*	NA*	N	NA*	1
AC072	GOLDING AND ASSOCIATES	\$162,000	Standard Two Party Agreement by Statute	Y	Y	NA	Y	Y	NA	0
PO276307	MILLIMAN USA, INC.	\$100,925	Purchase Order	Y	Y	NA	N	Y	NA	1
WC091	MOMENTUM HEALTHCARE, INC.	\$200,000	Standard Two Party Agreement by Statute	Y	Y	NA	Y	Y	NA	0
PO419721	SMK TECHNOLOGIES LLC	\$85,560	Purchase Order	Y	Y	NA	Y	Y	NA	0
PO129109	TAL SEARCH GROUP, INC.	\$62,500	Purchase Order	Y	Y	NA	Y	N	NA	1
PO590472	WEX BANK DBA WRIGHT EXPRESS FIN.	\$1,890,397	Purchase Order	Y	Y	NA	Y	Y	NA	0
TOTAL NUMBER OF AGREEMENTS WITH DEFICIENCIES				0	0	0	1	2	0	3

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