



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

June 2, 2011

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

Dear Mr. Kneip:

We have concluded our review of selected Department of Financial Services (Department) service contracts/grant agreements in effect on or after July 1, 2010, and related management activities. Our review focused on compliance with the following statutory requirements:

- Service contracts/grant agreements must contain a clear scope of work.
- Service contracts/grant agreements must contain deliverables that are quantifiable, measurable, verifiable and directly related to the scope of work.
- Service contracts must contain financial consequences for non-performance.
- Contract managers must enforce performance of the contract terms and conditions; review and document all deliverables for which payment is requested by vendors; and provide written certification of the agency's receipt of goods and services.

We reviewed fifteen service contracts and six grant agreements. Overall, the Department has performed well; however, there are several areas where improvements can be made.

Scope of Work and Deliverables

Services contracts and grant agreements must contain clear scopes of work, deliverables directly related to the scopes of work, and minimum required levels of services and criteria to successfully evaluate satisfactory performance. This structure is very important for payment processing; without it, the Department cannot gauge whether the State is receiving value, and payments may be delayed by requests for additional documentation. In some cases, if any of these elements are missing, the only mechanism to provide payment to vendors may be through executed settlement agreements.

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

Christina Smith • Director

Division of Accounting and Auditing

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Two grant agreements did not contain deliverables with minimum required levels of services, criteria for evaluating successful completion, and the amount of compensation for each deliverable.

Contract #	Vendor	Contract Amount
DO1491317	Ferd and Gladys Alpert Jewish Family & Children's Services	\$ 135,000.00
DO1491297	Jewish Community Services of South Florida	\$ 135,000.00

One service contract did not contain deliverables that were quantifiable, measurable, and verifiable units of service. The billable units for the invoicing were not reconcilable with the tasks required. In addition, the service contract did not require that the deliverables be received and accepted prior to payment.

Contract #	Vendor	Contract Amount
DO1989589	Hewlett-Packard	\$ 165,310.00

Financial Consequences

Effective July 1, 2010, Section 287.058(1)(h), Florida Statutes, requires services contracts to contain provisions for financial consequences an agency must apply if a provider fails to perform in accordance with a contract. Three service contracts reviewed did not contain financial consequences.

Contract #	Vendor	Contract Amount
A2D114	Optimum Software Solutions	\$ 116,180.00
A2E523	Technisource	\$ 102,660.00
DO2036513	Carroll and Company	\$ 73,500.00

Contract/Grant Management

The contract manager must enforce performance of the contract terms and conditions; review and document all deliverables for which payment is requested by vendors; and provide written certification of the agency's receipt of goods and services and ensure all payment requests are certified.

Our review disclosed that the contract management activity for a service contract was not sufficient, as the contract manager did not document verification that services were delivered satisfactorily prior to approving invoices for payment. Deliverables were approved based on vendor-generated data such as invoices, status reports, and time reports, without documented validation by the Department. The validation process should include reconciling vendor-generated data to data controlled and maintained by the Department.

Mr. Robert Kneip, Chief of Staff
June 2, 2011
Page Three

Contract #	Vendor	Contract Amount
A3E523	Technisource	\$ 102,660.00

In addition to lack of financial consequences, payments related to one selected service contract were missing the required written certification statement by the contract manager that services were satisfactorily received and payment was due prior to submitting the invoices for payment.

Contract #	Vendor	Contract Amount
DO2036513	Carroll and Company	\$ 73,500.00

Compliance with State Term Contract Requirements

One service contract procured from a state term contract contained hourly rates that exceeded the maximum allowed by the state term contract. The Department should include in its process a mechanism to ensure the hourly billing rates do not exceed the allowable rates in the state term contracts.

Contract #	Vendor	Contract Amount
A293BD	22nd Century Technologies	\$ 165,900.00

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 for contract development and management. Examples of items to include in the action plan are training, periodic management review, and routine feedback to staff that develops and manages contracts and grants. We request that the plan be submitted within 30 days of receipt of this letter.

We provide 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 review. Please contact Mark Merry, Chief of the Bureau of Auditing, at 850-413-3074 if you have any questions.

Sincerely,



Christina Smith

CS/fe

cc: Stephanie Iliff, Director
Division of Administration