



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

March 11, 2016

Marshall Stranburg, Executive Director
Department of Revenue
5050 West Tennessee Street, Suite 1-1600
Tallahassee, Florida 32399-0100

Dear Director Stranburg:

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; and
- The manager enforced performance of the agreement terms.

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.

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

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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, 35 audits have been completed and 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 Revenue (Department) agreements in 2011. Our audit disclosed a contract management deficiency rate of 29%, with no deficiencies related to the written contracts. 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 July 1, 2014 through June 30, 2015, and related contract 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 nine (9) agreements totaling \$7,885,670. Seven (7) of the agreements were reviewed to determine if required contract provisions were included. Additionally, we reviewed the contract management files for all nine (9) agreements. There were areas where improvements can be made. A summary of our review is included as Attachment A.

Scope of Work and Deliverables

Each service contract and grant agreement must contain a clear scope of work, deliverables directly related to the scope of work, minimum required levels of service, criteria to successfully evaluate satisfactory performance, and compensation for each deliverable. 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. Our review did not identify any scope of work or deliverable deficiencies.

Financial Consequences

Effective July 1, 2010, section 287.058(1)(h) F.S., requires all service contracts to contain provisions for financial consequences an agency *must* apply if a provider fails to perform in accordance with a contract. Specifically, we noted the following:

- Three (3) agreements contained no financial consequences.
 - **Florida State University (I0330)**
 - **Florida State University (E0073)**
 - **International Association of Assessing Officers**
- The agreements with **ABT Solutions Inc.** and **Guidesoft Temporary Staffing** contained no provisions for financial consequences that must be applied should the provider fail to perform in accordance with the requirements of the agreements. Instead, the agreements allowed the Department to assess financial consequences at its discretion.

Legal Requirements

Section 287.058 (1) F.S., states that every written agreement resulting from a procurement of contractual services in excess of the category two (2) threshold (35,000) must contain a provision:

- requiring bills to be submitted in detail sufficient for a proper preaudit and post audit;
- requiring bills for any travel expenses be submitted in accordance with s. 112.061;
- allowing unilateral cancellation by the agency for refusal by the contractor to allow public access to all documents;
- specifying that the contract may be renewed for a period that may not exceed three (3) years or the term of the original contract, whichever is longer;
- specifying the renewal price for the contractual service as set forth in the bid, proposal, or reply;
- specifying that costs for the renewal may not be charged;
- specifying that renewals are contingent upon satisfactory performance evaluations by the agency and subject to the availability of funds; and

- addressing the property rights of any intellectual property related to the contract and the specific rights of the state regarding the intellectual property if the contractor fails to provide the services or is no longer providing services.

In addition, section 287.0852 F.S., requires all service contracts with a term greater than one (1) year to contain the annual appropriation contingency statement, “The State of Florida’s performance and obligation to pay under this contract is contingent upon an annual appropriation by the Legislature”.

- Two (2) agreements did not contain one or more of the required legal provisions or the annual appropriation contingency statement as required by statute.

- **Florida State University (I0330)**
- **Florida State University (E0073)**

We recommend that the Department amend the agreements to include all provisions required by statute.

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 monitoring or management issues with four (4) grant agreements.

Performance Measure Verification

The agreement with **Guidesoft Temporary Staffing** establishes performance measures that require each temporary employee to assemble 60 certified mail envelopes every hour. The Department collected data on the number of mail trays and bins processed daily; however, the Department did not provide evidence that performance measures established in the agreement were verified prior to certifying payment. Upon our inquiry, the Department stated that it was difficult to measure the standard established in the agreement due to the varying thickness of the envelopes and the amount of mail in the trays and bins. The Department should verify services are provided in accordance with the performance standards established in the agreement prior to payment to avoid paying for services that do not meet the Department’s requirements. If this is not feasible, the Department should consider revising the performance standards to standards that are verifiable.

Financial Consequences

The agreement with **Professional Civil Process of Texas, Inc.** provides for the delivery of service of process to defendants of child support cases. The agreement also establishes performance measures for the timely routing of documents and for providing proof of service. The Department evaluated performance monthly and documented the results on a Performance Analysis Report (Report). The auditor's review of the Reports and invoices for April, May, and September of 2015 disclosed that the provider failed to meet the established performance measures for all three months sampled. The Department stated in its response to a prior review of this contract performed by the Bureau of Auditing that, "The financial consequence for failing to meet performance levels in the agreement is non-payment"; however, the Department made full payment totaling \$105,154 to the provider for the three months sampled.

We recommend the Department develop a methodology for assessing financial consequences for failure to perform as required in the agreement.

Verification of Deliverables

The Department did not verify the services invoiced by the **City of Jacksonville** or by **Professional Civil Process of Texas, Inc.** prior to certifying payment. Both agreements establish a fixed unit rate of payment for each writ served and/or service of process to a defendant for child support cases. Services are requested by the legal services provider (attorney, etc.) who inputs the request into the Department's Child Support Enforcement Automated Management System (CAMS). Once service is made, the provider notifies the legal services provider who, in turn, updates CAMS. At the end of each month the provider submits a substantiating report along with the invoice to the Department detailing the services provided. Our audit determined that the Department verified 10 percent (10%) of the writs processed by comparing the details on the substantiating report to CAMS; however, the Department did not verify the total number of writs invoiced by comparing the total number of writs on the substantiating report to the total number processed in CAMS. Without verification that the number of services invoiced is correct, the Department cannot certify that the invoice is true and correct.

Risk Assessment

The Department's Purchasing and Contract Management Manual requires a risk assessment to be completed and documented for contractual services estimated to cost between \$35,000 and \$250,000. Documentation of the steps taken to complete the risk

assessment should consist of a brief narrative explaining how risks were evaluated and justification as to why the contracted services provide best value to the State.

- The Department did not provide documented evidence that a risk assessment was performed for the agreement with **Florida State University (E0073)**.

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 Revenue

				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
I0340	ABTSolutions	\$458,784	Standard Two Party Agreement by Statute	Y	N	NA	NA	Y	Y	1
CSS16	City of Jacksonville	\$980,600	No ceiling/Rate Agreement	Y	Y	NA	NA	N	NA	1
C2387	Deloitte Consulting, LLP	\$3,650,400	Standard Two Party Agreement by Statute	NA*	NA*	NA*	NA*	Y	NA	0
I0330	Florida State University	\$516,629	Standard Two Party Agreement by Statute	Y	N	NA	N	Y	Y	2
E0073	Florida State University	\$84,250	Memorandum of Agreement	Y	N	NA	N	N	Y	3
G0286	Guidesoft Temporary Staffing	\$260,008	Standard Two Party Agreement by Statute	Y	N	NA	NA	N	NA	2
G0278	Informatix Inc	\$500,000	Standard Two Party Agreement by Statute	Y	Y	NA	NA	Y	Y	0
P0133	International Association of Assessing Officers	\$450,000	Standard Two Party Agreement by Statute	Y	N	NA	NA	Y	Y	1
CPS22	Professional Civil Process of Texas Inc	\$985,000	Standard Two Party Agreement by Statute	NA*	NA*	NA*	NA*	N	NA	1
TOTAL NUMBER OF AGREEMENTS WITH DEFICIENCIES				0	5	0	2	4	0	11

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