



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

August 23, 2011

Mr. Kurt S. Browning, Secretary
Florida Department of State
R. A. Gray Building
500 South Bronough
Tallahassee, Florida 32399-0250

Dear Secretary Browning:

We have concluded our review of selected Department of State 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 of:

- 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 11 service contracts and seven grant agreements. There are several areas where improvements can be made.

Deliverables

Service contracts and grant agreements must contain clear scopes of work, deliverables directly related to the scopes of work, minimum required levels of services, 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.

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

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Our review noted that payment terms for two service contracts were based solely on hours worked rather than the satisfactory completion of services as stated in the scope of work.

Contract #	Service Provider	Contract Amount
A353B0	CommerNet, Inc.	\$ 196,680
A2C1C9	Technisource, Inc.	\$ 78,400

Financial Consequences

Three of the 11 service contracts sampled did not contain financial consequences. Effective July 1, 2010, Section 287.058(1)(h), Florida Statutes, requires service contracts to contain provisions for financial consequences an agency must apply if a provider fails to perform in accordance with a contract. The Department should re-examine its process to ensure its contracts are in compliance with this requirement.

Contract #	Service Provider	Contract Amount
A353B0	CommerNet, Inc.	\$ 196,680
A2A590	Synergy Advertising and Design	\$ 99,820
A2C1C9	Technisource, Inc.	\$ 78,400

Chief Financial Officer (CFO) Memorandum #4(05-06)

Seven grant agreements with recipients of state financial assistance did not contain all of the required provisions related to the use of the grant funds. For example, there were no provisions requiring the agreement be charged with only allowable costs incurred during the term of the agreement or that unobligated cash not authorized to be retained for subsequent periods was to be returned to the State.

Contract #	Service Provider	Contract Amount
11-ST-47	Orange County Library System	\$ 817,196
11-ST-87	Three Rivers Library System	\$ 279,996
11-ST-94	Wilderness Coast Public Libraries	\$ 315,902
11-LCG-06	Tampa Bay Library Consortium	\$ 325,000
11-ST-13	Heartland Library Cooperative	\$ 450,000
HAVA Grant	Volusia County Supervisor of Elections	\$ 58,120
HAVA Grant	Broward County Supervisor of Elections	\$ 179,354

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 by vendors; and provide written certification of the agency's receipt of goods and services. Our review disclosed that the contract management activity for four service contracts was not sufficient, as the Department did not always document verification that services were satisfactorily delivered prior to approving invoices for payment. The validation process should include reconciling vendor-generated data such as timesheets and activity reports to data controlled and maintained by the Department, or an independent third party. Contract files should contain documentation of the steps taken to verify service delivery.

Contract #	Service Provider	Contract Amount
A2C1C9	Technisource, Inc.	\$ 78,400
A27A69	Image API, Inc.	\$ 90,000
A353B0	CommerNet, Inc.	\$ 196,680
A2F7D6	Cornerstone Software Services	\$ 47,680

Other Issues

As part of payment processing, contract managers must certify that services are satisfactorily received and payment is due prior to submitting the invoices to Accounting for payment. Payments related to two service contracts were missing the required written certification statement by the contract.

Contract #	Service Provider	Contract Amount
454001	The Gale Group	\$ 2,064,120
A353B0	CommerNet, Inc.	\$ 196,680

For another service contract an invoice was approved for payment that was not provided for in accordance with the terms of the agreement. A partial payment was made, prior to completion of all contracted services, although the contract provided for a single payment after receipt of all services.

Contract #	Service Provider	Contract Amount
A39209	Southern Mapping Technology	\$ 50,130

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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 Departmental 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: Mr. John Greene
Inspector General