DEPARTMENT OF STATE

PROCUREMENT AND EXPENDITURE PROCESSES AND STATE GRANTS ADMINISTRATION

Operational Audit



STATE OF FLORIDA AUDITOR GENERAL DAVIDW. MARTIN, CPA

SECRETARY OF STATE

The Department of State is created by Section 20.10, Florida Statutes. The head of the Department is the Secretary, who is appointed by the Governor and subject to confirmation by the Senate. Kurt S. Browning served as the Secretary during the period of our audit. Subsequent to Secretary Browning's resignation on April 30, 2010, Dawn K. Roberts was appointed as Interim Secretary of State.

The audit team leaders were Susan Walthall, CPA, and Tammy Williams, CPA, and the audit was supervised by Christi Alexander, CPA. Please address inquiries regarding this report to Christi Alexander, CPA, Audit Manager, by e-mail at christialexander@aud.state.fl.us or by telephone at (850) 487-9069.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF STATE

Procurement and Expenditure Processes and State Grants Administration

SUMMARY

This operational audit of the Department of State (Department) focused on Department controls relevant to the procurement and expenditure processes, the Department's administration of State grants, and included a follow-up on selected prior audit findings.

CONTRACT INFORMATION AND RECORD MAINTENANCE

<u>Finding No. 1:</u> The Department did not have in place the tools necessary to allow Department decision makers ready access to the procurement data required for sound contract management.

<u>Finding No. 2:</u> Department property records were not timely updated for property acquisitions and attractive and sensitive property items were not adequately safeguarded.

STATE GRANTS ADMINISTRATION

<u>Finding No. 3:</u> Department procedures for monitoring grantee compliance and enforcing grant requirements continued to be ineffective.

Finding No. 4: Department application and network security controls continued to need enhancement.

<u>Finding No. 5:</u> Opportunities remained for improving the tracking of the financial reporting packages required by the Florida Single Audit Act.

BACKGROUND

The Secretary of State assumes many roles as the head of the Department of State (Department), including Custodian of State Records,¹ Chief Cultural Officer,² and Chief Election Officer.³

The Department of State has six divisions with varied responsibilities. These divisions provide such diverse services as custody of the official State flag and seal; economic development; maintenance of corporate registrations and filings; interpretation of and enforcement guidance for election laws; coordination and funding of library activities; archives and records management; official compilation of State agency rules and publication of the Florida Administrative Code; promotion of Florida's fine arts and culture; promotion of historical, archaeological, and folk culture resources; and the award and administration of direct local grants for libraries, museums, historic and archaeological preservation, and cultural activities. The Department's primary and unique responsibilities and activities affect many varied stakeholders. Artists, archivists, preservationists, librarians, corporate officers, and voters are a few of the stakeholders that are affected by Department of State activities.

FINDINGS AND RECOMMENDATIONS

Contract Information and Record Maintenance

State laws and related rules, establish uniform procedures for use by State agencies to provide assurance of economical and ethical procurement of commodities and contractual services. During the period July 2008 through February 2010, Department expenditures totaled approximately \$29.8 million.

¹ Section 20.10, Florida Statutes.

² Section 15.18, Florida Statutes.

³ Section 97.012, Florida Statutes.

Finding No. 1: Contract Listing

Effective contract management reporting provides agency decision makers with relevant information on all contracts to which the Department is a party. Contract information such as the procurement method, contract number (or purchase order number), contract provider name, contract amount, total expenditures to date, contract start and expiration dates, references to any amendments, and the assigned contract manager for each active contract should be readily available to provide management assistance for contract planning, budgeting, monitoring, and reporting purposes.

In response to our audit request for a list of Department contracts active during the period July 2008 through February 2010, Department staff indicated that the Department did not maintain a comprehensive contract listing and that each Division was responsible for maintaining a listing of its own contracts. Subsequent to our audit request, Department staff manually compiled and provided the requested contract information; however, the listing provided did not include all active contracts awarded during the period July 2008 through February 2010 nor did it always include information such as the contract number (or purchase order number), total expenditures to date, any applicable amendment references, or the assigned contract manager.

Although the mechanism and documentation to be used by an agency to track contracts and procurements is not prescribed by law or rule, purchasing managers should have tools in place to allow agency decision makers ready access to complete, accurate, and reliable procurement data. Such data provides a basis for sound contract management.

Recommendation: To ensure Department management has the contract information needed for planning, budgeting, monitoring, and reporting, we recommend that the Department compile and maintain a complete and accurate listing of all Department contracts.

Finding No. 2: Tangible Personal Property Records

Effective controls for the management of tangible personal property require that acquired property items be timely recorded in the property records.⁴ Guidelines for identifying and recording tangible personal property acquired by State agencies are provided in Department of Financial Services (DFS) rules.⁵

The Department utilizes Florida Accounting Information Resource Subsystem (FLAIR) property records to account for tangible personal property. FLAIR property records are designed to create and maintain a property file that contains detailed records for each property item. The maintenance of accurate and complete records for tangible personal property is necessary to reasonably ensure accountability and protect public property against theft, misuse, and abuse. Costs for Department tangible personal property acquired during the period July 1, 2008, through February 28, 2010, totaled approximately \$1.2 million.

Our tests of Department controls and related records disclosed some weaknesses, as noted below, that may affect the Department's ability to effectively account for and safeguard the public's investment in tangible personal property. Specifically:

⁴ Property is defined in laws as equipment, fixtures, and other tangible personal property of a nonconsumable and nonexpendable nature, the value or cost of which is \$1,000 or more and the normal expected life of which is one year or more, and hardback-covered bound books, the value of which is \$250 or more.

a

⁵ DFS Rules, Chapter 69I-72, Florida Administrative Code, State-owned Tangible Personal Property.

➤ Ten of 112 items purchased during the period July 2008 through February 2010 were not recorded in Department FLAIR property records within the 60-day timeframe established by the Department. These 10 items were recorded from 62 to 127 days after the dates the items were received.

The Department did not maintain a listing of attractive or sensitive items (e.g., laptops) costing less than \$1,000.6 Although DFS rules do not require agencies to record such items in the FLAIR property records, the portability and desirability of such items, and the data they may contain, necessitate additional safeguards related to their control, assignment, and use.

The failure to timely record the acquisition of property in the property records and maintain a listing of items of an attractive or sensitive nature, increases the risk that loss or theft of assets might occur without timely detection by management. Additionally, with regard to attractive or sensitive electronic devices, there is also a concern regarding the security for and retention of data stored in and transmitted by the devices. Accordingly, additional safeguards, such as complete listings of the items and the persons to whom they are assigned, are essential.

Recommendation: To effectively safeguard Department property, as well as the data stored in and transmitted by electronic devices, we recommend that the Department strengthen controls to ensure that property purchased is timely recorded in the property records and that listings of items of an attractive or sensitive nature be maintained for accountability purposes.

State Grants Administration

The Department is responsible for administering several appropriations for State grants and aids. Grants made from such appropriations are administered through the Division of Historical Resources (historic preservation grants and museum grants), the Division of Cultural Affairs (various art grants), and the Division of Library and Information Services (library construction, library cooperative, library literacy, and library services and technology grants). Moneys provided by the Department to grantees through each State grants and aids appropriation are to be used solely for the purposes specified by State laws.⁷ Accordingly, the Department has a responsibility to perform oversight activities to ensure that grantees use grant moneys consistent with authorized purposes. During the 2008-09 and 2009-10 fiscal years, the Department administered State grants and aids appropriations totaling approximately \$38.6 million and \$29.1 million, respectively.

Finding No. 3: Grant Monitoring

To evaluate the effectiveness of Department State grants administration and oversight, we reviewed selected grant files from the Divisions of Cultural Affairs and Historical Resources as we noted deficiencies in the grants of those divisions in audit report No. 2009-049. As described below, we determined that deficiencies related to grantee compliance monitoring and grant award provisions continued to exist.

Division of Cultural Affairs

Department procedures required that Division staff review final grantee reports within 30 days of receipt. The grantee reports were to address such matters as any variances between the planned project work and the work actually accomplished, planned project budget and actual project cost, final products as specified in the approved scope of work, photographic evidence of completed construction work, and required audit documents. Timely review of the

⁶ Attractive or sensitive property can be characterized as items that are prone to theft because they are not secured and are easily portable, expensive new technology, or adaptable to personal use.

3

⁷ Chapter 257, Florida Statutes, *Public Libraries and State Archives*; Chapter 265, Florida Statutes, *Memorials, Museums, and Fine Arts*; and Chapter 267, Florida Statutes, *Historical Resources*.

reports allows the Department to verify grantee compliance with the grant award provisions. Our review of five grant files disclosed that the Division's established procedures for monitoring grantee compliance were not always followed. Specifically:

- For two of the five grantees, Division staff did not review the final reports submitted by the grantees within the 30-day timeframe established by the Department. The staff reviews for these two grants were made 96 and 174 days, respectively, after the final reports were received. Grant awards totaled \$43,459 for these two grants.
- The date of the staff review of the final report for another grant totaling \$52,807 was not documented in the grant file, thus we could not readily determine the timeliness of the Division's review. However, correspondence within the file revealed that the grantee was notified that the final report was approved 91 days after receipt of the final report.

Division of Historical Resources

The Division of Historical Resources was statutorily responsible for administering historic preservation grants. For two of three grant files reviewed, our audit disclosed that grant award agreement provisions were not always followed. Specifically:

- Historic preservation grant award agreements generally required that, when a grantee entered into an agreement with a subcontractor, certain specified provisions were to be incorporated into the body of, or included as an attachment to, subcontractor agreements. Compliance with this requirement was to be determined by the Division prior to the grantee's execution of the contract with the subcontractor. While it is our understanding that these provisions are not required to be included verbatim in the grant agreement, our tests of the files for one historic preservation grant totaling \$350,000 disclosed that the Division failed to detect, contrary to Division procedures, that provisions regarding subcontractor retention of project-related records and contract termination were not included in a contract between the grantee (a city) and a subcontractor (hired to provide design and construction services). Specifically, one of the grant award agreement provisions stated that the grantee was to require a subcontractor to maintain records for the later of a period of 5 years following completion of all project work, or until all claims and audit findings involving those records had been received. However, the agreement between the grantee and the subcontractor only required the subcontractor to maintain records for 3 years from the date of final payment. Additionally, although the grant award agreement required a provision for termination for cause, the subcontractor agreement did not include such a clause.
- ➤ For one historic preservation grant totaling \$88,580, the Division approved and paid for costs that did not appear to be allowable under the terms of the grant award agreement. Specifically, the Division approved and paid for:
 - A 20 percent administrative fee that was included on the majority of the invoices submitted for reimbursement by the grantee. Such an administrative fee was not authorized as a provision of the grant award agreement nor was the fee's purpose described on the invoices. In response to our audit inquiry, Division management stated that the 20 percent administrative fee was recognized as an integral part of the cost of the outside consultant services provided. However, absent authorization and a demonstration that the administrative fee was an allowable cost of the grant, the legal justification of the fee was not clear.
 - Expenses totaling \$2,022 for a Division employee's travel to a conference, contrary to the grant award
 agreement that specifically stated that grant funds were not to be used to pay Department employee
 travel expenses. According to Division staff, at the time the travel occurred, no one involved with the
 grants program was sufficiently familiar with the specific grant award agreement provision that disallowed
 travel costs.
 - Expenses totaling \$4,200 for grant obligations incurred after the funding period. These expenses included a \$3,500 reimbursement for the cost of a keynote speaker plus an administrative fee of \$700; however, the speaking engagement did not occur until September 16, 2009, after the end of the

June 30, 2009, funding period. According to Division staff, the annual conference for which the speaker was engaged has traditionally occurred in the fall, shortly after the end of the fiscal year and funding period. However, due to the lead time required to secure speakers for the conference, a portion of the costs were necessarily paid from the grant ending prior to the date of the conference.

The instances noted above may have been prevented had the grant manager adequately reviewed and determined the allowability of the costs submitted prior to approving reimbursement.

In the absence of sufficient oversight, the Department cannot ensure that State grant funds are always used in a manner consistent with governing laws, rules, and provisions of grant award agreements or that, when necessary, appropriate remedies for noncompliance are timely applied.

Recommendation: We again recommend that the Department enhance grant monitoring procedures for the Divisions of Cultural Affairs and Historical Resources to ensure that sufficient grant oversight is provided. Such enhancements should:

- Ensure that all required grantee reports are reviewed timely and that proper follow-up action is taken when instances of noncompliance are noted.
- Ensure that all future grant award agreements between grantees and subcontractors contain required grant provisions.
- Ensure that the employee responsible for approving reimbursements of grant expenditures considers the allowability of the costs prior to authorizing reimbursement.
- > Ensure that only those expenditures authorized in the grant award agreement and incurred for the benefit of the State be approved for reimbursement.

Finding No. 4: Security Controls

As similarly noted in audit report No. 2009-049, the Department's application and network security controls continued to need enhancement. Specific details of the enhancements needed are not disclosed in this report to avoid the possibility of compromising Department data and information technology resources. However, appropriate Department personnel have been notified of these items.

Recommendation: We again recommend that the Department strengthen certain application and network security controls to reduce the risk of unauthorized access to, modification of, or destruction of information within its grants administration system.

Finding No. 5: Florida Single Audit Act Financial Reporting Packages

In report No. 2009-049, we noted deficiencies related to procedures for reviewing the financial reporting packages (FRPs) required by the Florida Single Audit Act (FSAA).⁸ Our follow-up review of the actions taken by the Department to address these findings disclosed that the Department had finalized and implemented written policies and procedures for monitoring recipients and reviewing FRPs and had developed an FSAA database to track when FRPs were due, received, and reviewed. However, although the Department had made progress in the tracking and review of FRPs, as of February 28, 2010, we noted that:

The database used to track FRPs failed to include all the States grants and aids issued to recipients prior to the 2008-09 fiscal year that may require FRPs. Subsequent to our audit inquiry, the Department performed a

⁸ Section 215.97, Florida Statutes.

reevaluation of the active grants and provided an updated database report. Upon providing the report, Department staff indicated that they anticipated having all the information completed by the end of the 2009-10 fiscal year.

➤ The database report did not appear complete for 18 recipients who had received at least \$100,000 in grant funds during the 2008-09 fiscal year. For example, for 11 of the 18 recipients, the report indicated that FRPs had been reviewed and deficiencies were noted; however, there were no FRP receipt dates listed on the database report.

To ensure that FRPs are timely received and appropriately reviewed, appropriate corrective actions are taken, and reliable information is available for future funding and policy decisions, an effective process for tracking FRPs is essential.

Recommendation: To enhance the usefulness of the FSAA database as a management tool for monitoring whether FRPs were timely received and reviewed and that corrective actions were taken when necessary and to ensure that reliable information is available for future funding and policy decisions, we recommend that the Department include all applicable information related to State grants and aids in the FSAA database.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the applicable findings included in our report Nos. 2009-031 and 2009-049.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2010 to June 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on Department procurement and expenditure processes and grants administration. The overall objectives of the audit were:

- > To evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in report Nos. 2009-031 and 2009-049.

In conducting our audit we:

Detained an understanding of internal controls and observed, documented, and evaluated the effectiveness of key processes and procedures related to Department procurement and expenditures transactions.

- ➤ Tested 200 expenditure transactions (50 general and administrative, 56 contractual, 28 tangible personal property, 30 travel, and 36 supplies and commodities expenditures) totaling \$2.9 million and 68 procurement transactions (4 related to contractual services, 36 related to supplies and commodities, and 28 related to tangible personal property items) totaling \$5.3 million during the period July 2008 through February 2010 to determine whether the Department:
 - Procured and paid for goods and services in accordance with governing laws, rules, and Department policy.
 - Ensured that goods and services served an authorized purpose of the State and were procured at a reasonable and necessary cost.
 - Ensured that expenditure transactions recorded in FLAIR were authorized, timely recorded, correctly coded (i.e., appropriate funding source, fiscal period, object code, etc.), appropriate in amount, and supported by adequate documentation.
- ➤ Determined whether 112 tangible property items acquired during the period July 2008 through February 2010 were timely and properly recorded in the FLAIR property records.
- Evaluated Department procedures to safeguard tangible property items and attractive and sensitive electronic devices.
- Performed analytical procedures of FLAIR expenditure data to identify:
 - Expenditure types, number of transactions, and total dollar amount.
 - Any large or unexpected variances in overall expenditures during the past 3 fiscal years.
 - Questionable vendors and employee vendors.
 - Travel advances related to selected travel expenditures.
- Performed analytical procedures of procurement data to identify:
 - Large dollar value purchases of goods or services.
 - Nontraditional cost and compensation methods.
 - Goods or services not normally associated with the Department's authorized purpose and operations.
 - Goods or services that were already provided or performed by another unit of government (e.g., legal services).
- Evaluated Department actions taken to correct the deficiencies disclosed in audit report Nos. 2009-031 and 2009-49. Specifically:
 - Reviewed Division of Corporations records to determine whether procedures were sufficient to ensure
 that penalty and dispute resolution provisions had been included in certain provider agreements and that
 provider contract terms and conditions were adequately monitored and enforced. In addition, we
 reviewed Division procedures to determine whether the procedures required an independent auditor's
 report when applicable.
 - Reviewed Division of Corporations records to determine whether procedures had been implemented to
 ensure that data recorded in the Corporate System was periodically reconciled to related information in
 FLAIR.
 - Reviewed the revenue collection process for the apostilles and certificates of notarial authority to determine whether the Department had implemented procedures to document the transfer of collections

between employees, separate incompatible revenue collection duties, and reconcile certificates issued to revenues collected.

- Evaluated Department controls over the systems used to process revenue collections and State grants to determine whether the Department had implemented proper application and network security controls.
- Reviewed five Division of Cultural Affairs grant files to determine whether the Department's established procedures for monitoring grantee compliance were followed.
- Reviewed three historic preservation grant files and related reimbursements to evaluate whether
 monitoring procedures were sufficient to ensure that State grant funds were used in a manner consistent
 with governing laws, rules, and other guidelines and, when necessary, that appropriate remedies for
 noncompliance were timely applied.
- Evaluated the completeness of the FSAA database used to track FRPs and the usefulness of the database
 for management's monitoring of whether FRPs were timely received and reviewed and that corrective
 actions were taken when necessary.
- Performed a 7-year comparative analysis of Florida Voter Registration System (FVRS) expenditure data, including expenditure types and amounts, to verify that no material differences between appropriated amounts and expenditures existed and that no large or unexpected variances in overall expenditures occurred.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- > Prepared and submitted for management response the findings and recommendations that are included in this report and which describe those matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

David W. Martin, CPA Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated September 30, 2010, the Interim Secretary of State concurred with our audit findings and recommendations. The Interim Secretary's response is included as EXHIBIT A.

THIS PAGE INTENTIONALLY LEFT BLANK.

EXHIBIT A MANAGEMENT'S RESPONSE



CHARLIE CRIST Governor KURT S. BROWNING Secretary of State

September 30, 2010

David W. Martin, CPA G74 Claude Pepper Building 111 West Madison Street Tallahassee, Florida 32399-1450

Re: Preliminary and Tentative Audit findings for the Department of State, for the period February 2010 through June 2010.

Dear Mr. Martin:

Please accept this letter and attachment as the Department's response to your letter dated September 1, 2010, applicable to audit referenced above.

Please do not hesitate to contact me if you have any further questions.

•

sb

EXHIBIT A MANAGEMENT'S RESPONSE (CONTINUED)



DOS Reponses to Preliminary and Tentative Audit Findings

<u>Finding No. 1:</u> The Department did not have in place the tools necessary to allow Department decision makers ready access to the procurement data required for sound contract management.

<u>Recommendation</u>: To ensure Department management has the contract information needed for planning, budgeting, monitoring, and reporting, we recommend that the Department compile and maintain a complete and accurate listing of all Department contracts.

Agency's Response:

The Department of State concurs with the finding. In response to the audit recommendations, the Department has implemented a procedure for maintaining and tracking all Department contracts. The Department-wide list will be maintained by the Division of Administrative Services along with a copy of each contract. The list will include information pertinent to management such as the vendor name, contract number, beginning and ending dates, and the amount of the contract.

<u>Finding No. 2</u>: Department property records were not timely updated for property acquisitions and attractive and sensitive property items were not adequately safeguarded.

<u>Recommendation</u>: To effectively safeguard Department property, as well as the data stored in and transmitted by electronic devices, we recommend that the Department strengthen controls to ensure that property purchased is timely recorded in the property records and that listings of items of an attractive or sensitive nature be maintained for accountability purposes.

Agency's Response:

The Department of State concurs with the finding. The Department has taken steps to reaffirm its policy regarding recording property purchases in the property inventory system in a timely manner. The Department currently maintains an inventory of all cellular telephones and PDAs assigned to agency personnel and plans to include in its master inventory similar items of an attractive or sensitive nature (e.g. laptops) costing less than \$1,000.

EXHIBIT A MANAGEMENT'S RESPONSE (CONTINUED)

<u>Finding No. 3:</u> Department procedures for monitoring grantee compliance and enforcing grant requirements continued to be ineffective.

Recommendation: We again recommend that the Department enhance grant monitoring procedures for the Divisions of Cultural Affairs and Historical Resources to ensure that sufficient grant oversight is provided. Such enhancements should:

- Ensure that all required grantee reports are reviewed timely and that proper followup action is taken when instances of noncompliance are noted.
- Ensure that all future grant award agreements between grantees and subcontractors contain required grant provisions.
- Ensure that the employee responsible for approving reimbursements of grant expenditures considers the allow ability of the costs prior to authorizing reimbursement.
- Ensure that only those expenditures authorized in the grant award agreement and incurred for the benefit of the State be approved for reimbursement.

Division of Cultural Affairs Response:

The Department of State concurs with the finding. The Division agrees that current procedures do not insure a timely review of the Final Report; therefore, the following corrective action is being implemented:

- The Division will establish a postmark deadline for the receipt of the Support Materials
 to coincide with the final report due date of July 30. This will insure the receipt of all
 materials and enable program managers to review the entire Final Report in a timely
 manner.
- 2. The Grant Expenditure Log has been incorporated into the Final Report for all 2010 grants rather than being submitted separately with the Support Materials.
- 3. Program managers will track the grants for which they are responsible using an Excel spreadsheet. Tracking will include the receipt of required material, internal review documents, grant extensions, and Close-out* letters. Tracking Reports will be available to supervisors in real time.
- 4. Grant close-out deadlines will be established by the supervisors, monitored by the Division Director, and comply with the Office of Cultural, Historical, and Information Programs (OCHIP) Grants Compliance Procedures.
- A detailed updated Procedures Manual for Program Grant Management (including these changes) is scheduled for completion in October 2010.
 *Closed-out means that the report has been received, reviewed, problems corrected, and a Grant Closed notification sent to the grantee.

EXHIBIT A MANAGEMENT'S RESPONSE (CONTINUED)

Division of Historical Resources Response:

The Department of State concurs with the finding. The review process may take days or weeks to complete, if grantees have not provided sufficient documentation of expenditures. Grants administrators follow up with grantees on a regular basis in an attempt to keep the submission of all required deliverables on track. A seeming delay in approving a report may actually reflect an ongoing effort on the part of the grants administrator to resolve the insufficiency of the report. To address these concerns the Department has taken the following steps:

- 1. In August of 2009, the Office of Cultural, Historical and Information Programs implemented Grants Compliance Procedures which include a time grid by which to track timely compliance on the part of grantees. The new procedures also provide a structure for follow-up with non-compliant grantees that puts weight behind the requests of the grants administrators. This policy was not in place at the time of the FY2008 grant awards. In October 2009, the Department adopted new rules for Grants Administration: Chapter 1A-39 of the Florida Administrative Code. This set of rules provides specific guidelines for both grantees and grants administrators. Chapter 1A-39 was not in place at the time of the FY2008 grant awards and, since implemented, has proven to be a valuable tool in grants management.
- 2. To ensure consistency between the grant award agreement and subcontractor contracts, Chapter 1A-39 will be amended to require that the attachment known as "Special Conditions of Contract" be appended to all subcontractor contracts. Grants staff will also devise a contract checklist of required items from the grant award agreement for use in reviewing draft subcontractor contracts.
- 3. The new rules set forth in Chapter 1A-39, FAC, describe in detail those costs that are not allowed as grant fund reimbursement or as match. The list of disallowed costs is also included in the solicitation of new applications and in the grant application instructions. Providing this information in advance to potential grantees and having the costs specifically listed should provide fewer instances of disallowed claims in expenditure reports and will be an aid to grants administrators in evaluating such claims.
- 4. Under the new set of rules set forth in Chapter 1A-39, the grant award agreements are now amended to include the approved project budget. This, paired with the scope of work, serves to underscore the requirement that expenditures must be in line with the project work items. The Progress and Expenditure reports have also been amended by requiring the grantee to identify the work items paid with corresponding portions of the grant funds or match.

<u>Finding No. 4:</u> Department application and network security controls continued to need enhancement.

EXHIBIT A MANAGEMENT'S RESPONSE (CONTINUED)

<u>Recommendation:</u> We again recommend that the Department strengthen certain application and network security controls to reduce the risk of unauthorized access to, modification of, or destruction of information within its grants administration system.

Agency's Response:

The Department of State concurs with the finding. The corrective actions are on file with the Secretary of State.

<u>Finding No. 5:</u> Opportunities remained for improving the tracking of the financial reporting packages required by the Florida Single Audit Act.

Recommendation: To enhance the usefulness of the FSAA database as a management tool for monitoring whether FRPs were timely received and reviewed and that corrective actions were taken when necessary and to ensure that reliable information is available for future funding and policy decisions, we recommend that the Department include all applicable information related to State grants and aids in the FSAA database.

Agency's Response:

The Department of State concurs with the finding. As a result of Auditor General Report No. 2009-049, written policies and procedures were developed and implemented for monitoring receipt and reviewing Financial Reporting Packages (FRPs) required by the Florida Single Audit Act (FSAA). Also, the Department developed a manual database to track statutorily required information or all grants and funds issued under the FSAA. The Department first used this database to track FSAA grants and aids for fiscal year 2008-2009. This is the database that was initially reviewed by the Auditor General. The fiscal year 2008-2009 database lists over 950 grants and aids issued under the FSAA. Although not all grants and aids required a FRP, over 230 did require an FRP. However, in order to determine which grant and aid recipients required FRPs, over 200 recipients were contacted through emails, mail, or by telephone to obtain documentation to verify the amount of their state expenditures during the corresponding fiscal year.

The database initially provided to the Auditor General did not contain all grants and aids issued under the FSAA. However, an updated database, which included all FSAA grants and aids, was provided to the Auditor General prior to the completion of their field work. The database initially provided did not include FSAA grants and aids which were appropriated in previous fiscal years but still active. The process to obtain the database information has been modified so that all active FSAA projects will be included on the database in the future. The Department has obtained all required FRPs for the fiscal year 2008-2009 and the database has been completed.

EXHIBIT A MANAGEMENT'S RESPONSE (CONTINUED)

The database does not include complete data for several of the FSAA grants and aids that require FRPs, such as the FRP received date; however, all required FRPs were received, reviewed, and documented. In the past not all FRPs were date stamped by Division staff upon receipt therefore an accurate receipt date could not be entered into the database. The Divisions have been notified that in the future all FRPs should be date stamped when they are received.

To enhance the usefulness of the FSAA database as a management tool the Department will include all applicable information related to FSAA grants and aids in future databases.