

**State of Florida  
Department of Children and Families**


*Charlie Crist  
Governor*

**George H. Sheldon**  
*Secretary*

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**DATE:** March 9, 2009

**TO:** George H. Sheldon  
Secretary

**FROM:** Sheryl G. Steckler   
Inspector General

**SUBJECT:** Follow-up and Status Report for Auditor General Report No. 2008-119

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In accordance with Section 20.055(5)(g), Florida Statutes, enclosed is our status report on Auditor General Report No. 2008-119, *"Department of Children and Family Services - Community-Based Care Lead Agencies Tangible Personal Property and Information Technology Security, Operational Audit."*

If I may be of further assistance, please let me know.

Enclosure

cc: Melissa Jaacks, Acting Deputy Secretary  
Elwood McElhane, Acting Assistant Secretary for Administration  
John Cooper, Acting Assistant Secretary for Operations  
David Fairbanks, Assistant Secretary for Programs  
Barney Ray, Financial Administrator, CBC Fiscal Issues  
Regional/Circuit Administrators  
Community-Based Care Lead Agencies  
Contract Managers  
Terry Shoffstall, Staff Director, Joint Legislative Auditing Committee

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Mission: Protect the Vulnerable, Promote Strong and Economically Self-Sufficient Families, and Advance Personal and Family Recovery and Resiliency



DEPARTMENT OF CHILDREN AND FAMILIES



OFFICE OF INSPECTOR GENERAL

George H. Sheldon  
Secretary

Sheryl G. Steckler  
Inspector General

Report # E-20-0708-052

March 9, 2009

**Follow-up and Status Report on  
CBC Lead Agencies Tangible Personal Property and Information Technology Security  
Auditor General Report #2008-119**

**EXECUTIVE SUMMARY**

This follow-up and status report provides a written response to the Secretary on the corrective actions taken after the Auditor General published Report #2008-119, *Department of Children and Family Services - Community-Based Care Lead Agencies Tangible Personal Property and Information Technology Security, Operational Audit.* The audit report's 12 findings were based on fieldwork conducted at three community-based care lead agencies (CBCs) and the Department; however, the recommendations were addressed to, or applicable to, all CBCs and/or the Department. Overall, 19 CBCs and the Department generally reported compliance with regard to tangible personal property and information technology security controls. CBC commentary reveals that the greatest opportunity for improvement is in disaster recovery plan testing.

**BACKGROUND**

The original audit focused primarily on records and controls related to the initial transfer of property and on the accountability provided for tangible personal property during the period July 2006 through June 2007. The audit also addressed information technology (IT) security controls relating to Florida Safe Families Network (FSFN) during the period August 2007 through November 2007 and evaluated Department policies and procedures for monitoring CBC accountability over tangible personal property and IT security. The Auditor General conducted audit fieldwork at the Department and at the following CBCs: Family Services of Metro Orlando, Inc., Family Support Services of North Florida, Inc., and Hillsborough Kids, Inc.

To meet the outsourcing requirements of §409.1671, Florida Statutes, the Department entered into contracts with CBCs. At the inception of each contract the Department either transferred property to the CBCs or provided start-up funds to purchase property. After start-up, CBCs used funds received via subsequent contract payments to purchase property. Also, the contracts between the Department and the CBCs provided access to the Department's Florida Safe Families Network (FSFN). In addition, some CBCs have contracted with case management organizations (CMOs).

Property includes equipment, furniture, fixtures, motor vehicles, and other non-consumable and nonexpendable personal property for which the original acquisition cost or estimated fair market value is \$1,000 or more and the expected useful life at the time of transfer or purchase is one year or more. This also applies to all computers.

## METHODOLOGY

Based on the 12 findings and 21 recommendations included in the Auditor General's report, the Office of Internal Audit (OSIA) surveyed 20 Community Based Care Lead Agencies and Department staff responsible for administrative services activities to gather follow-up information to gauge the implementation level of Auditor General's recommendations. Nineteen (19) CBCs responded to the survey. This report's contents are based on representations made by CBC and Department representatives. The survey was developed directly from the aforementioned audit's findings and recommendations.

## REPORT FINDINGS, RECOMMENDATIONS, SURVEY QUESTIONS, & COMMENTARY

Presented below are the Department's Administrative Services' (AS) up-to-date corrective action comments, selected CBC Lead Agency comments (summarized), and survey response results for audit findings 1 through 12, as reported by AS and CBC Lead Agencies' staff.

**FINDING 1:** *Lapses in property transfer procedures resulted in some unaccounted for property, the cost of which totaled approximately \$181,500.*

**RECOMMENDATIONS:** *The Auditor General recommended that the Department reconcile the transfers of property, as reflected by its property records, to the transfers of property, as reflected by the transfer receipts signed by all of the CBCs, and investigate all differences.*

*The Auditor General also recommend that, where appropriate, the CBCs record in their subsidiary records and general ledger property accounts all transferred property.*

In addressing the finding and recommendations, Administrative Services' staff indicated that "It is not cost effective to perform reconciliations for every CBC, especially where changes in lead agencies have occurred and where items no longer have value due to their age. Due to the budgetary and FTEs reductions to DCF budget, it is not cost effective to implement these recommendations."

**FINDING 2:** *CBC policies and procedures did not always ensure that purchased property items were timely recorded in CBC property records.*

**RECOMMENDATION:** *The Auditor General recommended that the CBCs consider the establishment of account codes into which only purchases of property items shall be recorded.*

**OSIA SURVEY QUESTION:** Has your organization established such account codes to capture property item purchases?

**SURVEY RESULTS:** CBCs: Yes -- 19

**CBCs COMMENTARY:** Eleven CBCs provided comments to support their "Yes" responses. The consensus indicated that general ledger codes have been established to identify items that meet fixed asset criteria or property valued at \$1,000 or more. CBC comments indicated that these accounts, or schedules, are reviewed at least quarterly to ensure appropriate coding by CBC staff or annually by external auditors. One CBC indicated that use of inventory software, purchased after the audit, allows tracking (and tagging) of all IT items over \$250 and fixed assets and a comparison to ensure that new purchases shown in the inventory match the purchases recorded in general ledger codes.

**RECOMMENDATION:** *The Auditor General also recommended that, as part of the Department's periodic monitoring procedures, the Department include steps to review these reconciliations.*

**OSIA SURVEY QUESTION:** Has the Department included steps in monitoring procedures to review the CBCs' reconciliations of property item purchases to property record additions?

**SURVEY RESULTS:** DCF Yes

**DEPARTMENT COMMENTARY:** In response to the Auditor General's recommendation the Department's corrective action 'update[d] the Cost Allocation Plan template to ensure that each CBC has an acquisition code to identify purchases that should be recorded in physical inventory.' Also, the Fiscal Monitor team, in reviewing CBC property issues, ensures linkages exist between the property inventory and the General Ledger as described in the CBC's approved Cost Allocation Plan. The team reviews property policies and procedures to ensure property is accurately and timely recorded and determines whether annual inventories are taken and submitted to the contract manager.

**FINDING 3:** *CBC policies and procedures did not always ensure appropriate documentation was retained in support of property items deleted from the property records.*

**RECOMMENDATION:** *The Auditor General recommended that records be maintained for all disposed property showing the reason for disposing of the property, management approval of the disposal, and identification of any proceeds received.*

**OSIA SURVEY QUESTION:** Please indicate "yes" or "no" to signify whether your organization's policies and procedures ensure that adequate supporting documentation is retained to show:

SURVEY RESULTS	YES	NO
➤ the reason for property disposal	17	2
➤ an accounting of proceeds received	17	2
➤ management's authorization	18	1

**CBCs COMMENTARY:** Best practices noted indicated that specific policy and procedures for the disposal of property have been implemented. Disposals and other movement of tagged property are tracked via an inventory system. One CBC indicated that procedures are in place for the three requirements but, based on the Auditor General's recommendation, will revise its property policy to incorporate the procedures. Another CBC indicated that DCF approval must be obtained before disposition.

CBCs that responded "No" did so to either one or two of the three disposal requirements. In explaining its "No" response, one CBC indicated that its policy and procedures need to be updated; however, it is practice to obtain management authorization and account for any proceeds received. Explanations of other "No" responses indicated surplus items are returned to the State, thus an accounting of proceeds received is not applicable; and, every [disposed] item on our inventory record does not have the reason for the property disposal identified.

**RECOMMENDATION:** *Furthermore, the Auditor General recommended that the CBCs ensure that their property systems do not purge the records of disposed property.*

**OSIA SURVEY QUESTION:** Does your organization's property system purge records of disposed property?

**SURVEY RESULTS:** Yes—4 No—15

**CBCs COMMENTARY:** One CBC explained its purging of property records by indicating “all fixed assets to be disposed are pre-approved for disposal by DCF.” Another CBC has implemented accounting software that enables them to keep a record of retired equipment. Another CBC uses an EXCEL spreadsheet, instead of a property system, to track property, but once the property is ‘deleted’ it is removed from the spreadsheet.

CBCs whose property system does not purge records of disposed property provided various comments on the handling of ‘disposed’ property. One CBC indicated that most of its system is manual, but prior records are kept for information purposes. Another CBC indicated that its system keeps a record of all purged property under a “disposed” classification. One CBC explained that property items are not purged but inactivated in their fixed asset system, no longer showing up on the fixed asset listing. Yet another says that while disposed items are deleted from the detailed Fixed Assets and corresponding depreciation schedules, they retain the original records of the property disposal. Other comments indicated that instead of purging the item completely, the CBC selects ‘surplus’ for each disposed item. One other CBC indicated that all asset information is maintained indefinitely in an asset’s management system.

**FINDING 4: *CBC property records did not always contain information required by Department contracts and Federal regulations.***

**RECOMMENDATION: *The Auditor General recommended that the Department ensure that all CBC contract clauses and documents identifying property record requirements for CBCs are consistent and in compliance with Federal regulations.***

**DEPARTMENT COMMENTARY:** *The Department can use information provided by CBCs on the reporting of tangible personal property expenditures to determine the funding sources at the end of the year when the Post Award Notices are sent. Because the Department does fund management at the statewide level, CBCs cannot know at the time of purchase the percentage of funds from federal sources.*

**RECOMMENDATION: *The Auditor General also recommended that the CBCs ensure that their property records make provision for all required information and that the required information is accurately and completely recorded.***

**OSIA SURVEY QUESTION:**

In the list of requirements below, please mark the appropriate item to indicate the information that is captured by your organization’s property records:

SURVEY RESULTS	YES	NO
➤ a description of the equipment	19	
➤ manufacturer’s serial number	18	1
➤ source of equipment	18	1
➤ acquisition date	19	
➤ information from which one can calculate the percentage of Federal participation in the cost of the equipment	6	13
➤ location of the equipment and the date the information was reported	18	1
➤ condition of the equipment and the date the information was reported	16	3
➤ unit acquisition cost	19	
➤ ultimate disposition data	15	4

**CBCs COMMENTARY:** In identifying the information captured by their organizational property records, 15 to 19 CBCs indicated “Yes” for eight of the nine requirements – three requirements, respectively, had 19 and 18 CBCs that responded “Yes.” One requirement (information from which one can calculate the percentage of Federal participation in the cost of the equipment)

only 6 CBCs responded "Yes". The responses supporting the low "Yes" rate appeared to correlate to the department's response above. For example, one CBC indicated that 'The percentage of Federal participation in the cost of equipment cannot be determined at the CBC level since it is managed at the state level.' Another stated that 'Our funding is now centralized at DCF.'

**FINDING 5:** *The Department's contract monitoring procedures could be enhanced to provide greater accountability over property transferred to CBCs and property purchased by CBCs through Department contracts.*

**RECOMMENDATION:** *The Auditor General recommended that the Department enhance contract monitoring procedures to provide greater accountability over property. Such contract management procedures should include, but not be limited to:*

- *Evaluating the effectiveness of the internal controls relating to tangible personal property;*
- *Analyzing the changes between prior year and current year ending property record balances;*
- *Observing and sampling property at CBCs and CMOs;*
- *Requiring the fiscal monitor to trace to the property records any property purchased, as identified in tests of CBC cash disbursements.*

**SURVEY QUESTION:** Has the Department enhanced the contract monitoring procedures, as recommended by the Auditor General, to provide greater accountability over property?

**DEPARTMENT COMMENTARY:** The Fiscal Monitor team assesses internal controls related to accounting practices and samples property transactions to ensure compliance with the approved Cost Allocation Plan. The Fiscal Monitor also tests Lead Agency oversight of subcontractor property purchases during reviews of subcontract monitoring practices. The Department's Contract Manager should be aware of changes between prior year and current year ending property record balances, which should be properly explained as either new purchases of property or dispositions. The Contract Oversight Unit reviews property related internal control for compliance and conducts sampling of property from the Lead Agency's most recent inventory.

**FINDING 6:** *At the CBCs, incompatible duties related to the acquisition and accountability of information technology property had been assigned.*

**RECOMMENDATION:** *The Auditor General recommended that the CBCs segregate the duties such that no one employee has the ability to order, receive, tag, and inventory equipment.*

**OSIA SURVEY QUESTION:** Please identify the individual(s), and their position titles, which are responsible for the following activities related to IT equipment.

- purchase authorization:
- asset custody:
- recordkeeping:

**SURVEY RESULTS:** All 19 CBCs responded "Yes" to all three requirements.

**CBCs COMMENTARY: Segregation of duties** - The finding primarily highlighted incompatible duties associated with IT equipment. Twelve CBCs clearly indicated that their three acquisition and accountability duties were segregated. The remaining seven CBCs listed one individual, position title, or department (section) involved in at least two of the three acquisition and accountability duties, or the listings were too vague to recognize the strength of the control.

**RECOMMENDATION:** *Additionally, the Auditor General recommended that Hillsborough Kids consider the use of numbered property tags to aid in the identification, location, and safeguard of the equipment.*

**OSIA SURVEY QUESTION:** Does your organization use numbered property tags to aid in the following:

SURVEY RESULTS	YES	NO
➤ identification of the equipment	19	
➤ location of the equipment	19	
➤ safeguard of the equipment	17	2

**CBCs COMMENTARY: Numbered tags** - All nineteen CBCs indicated that numbered tags were used for identification and location of equipment. Two of the nineteen indicated that tags were not used to safeguard equipment; however, neither commented to explain the "No" response.

**FINDING 7:** *Risk management policies and procedures of the CBCs did not ensure that insurance coverage was at appropriate levels to mitigate the risk of loss of furniture and equipment.*

**RECOMMENDATION:** *The Auditor General recommended that the CBCs amend their risk management policies and procedures to ensure that they provide for an analysis of the adequacy of insurance provided for furniture and equipment.*

**OSIA SURVEY QUESTION:** Do your organization's risk management policies and procedures provide adequate instruction for analyzing the adequacy of insurance coverage for furniture and equipment?

**SURVEY RESULTS:** Yes—15 No—4

**CBCs COMMENTARY:** One CBC acknowledged that their risk management policies and procedures were quite detailed and that the risk management process was sufficient to analyze the adequacy of the insurance coverage. Another CBC indicated that risk management committee meetings are conducted on a regular monthly basis and that the Chief Financial Officer reports to this committee on the periodic acquisition of comprehensive property insurance coverage. A third CBC indicated that it retains the services of insurance brokers to assist in purchasing adequate insurance coverage. A fourth CBC simply stated that §409.1671, Florida Statutes, covers general liability requirements.

**RECOMMENDATION:** *The Auditor General also recommended that the risk management policies and procedures be amended to provide for review of the adequacy of Case Management Organization (CMO) insurance coverage.*

**OSIA SURVEY QUESTION:** Do your organization's risk management policies and procedures provide for review of the adequacy of CMO insurance coverage?

**SURVEY RESULTS:** Yes—12 No—7

**CBCs COMMENTARY:** Most responses were supported by comments that case management is handled in-house. One CBC indicated that CMO insurance coverage is handled by contracts. Another CBC indicated that CMO insurance coverage is reviewed in general (automobile and liability) but not specifically for furniture and equipment.

**FINDING 8:** *The Department had not established procedures for monitoring the IT functions of the CBCs. In addition, the Department's reporting of FSFN security activities needed improvement.*

**RECOMMENDATION:** *The Auditor General recommended that the Department should establish procedures for monitoring the IT functions of the CBCs that affect Department IT systems such as FSFN.*

**OSIA SURVEY QUESTION:** Has the Department established monitoring procedures to conduct CBC IT security audits?

**SURVEY RESULTS:** Yes

**DEPARTMENT COMMENTARY:** Information Systems (IS) has established procedures to use when visiting CBC locations. IS conducted two CBC [security] audits in 2008 - one, a follow-up at ChildNet and a first time review of five of their subcontractors; the other at Big Bend. IS organized three teams to perform additional CBC audits. However, due to funding and travel constraints, IS has been unable to schedule additional security audits for 2009.

**RECOMMENDATION:** *The Auditor General also recommended that the Department should communicate with appropriate regional and CBC security officers regarding security reporting needs and enhance the reporting and monitoring of FSFN security activities. Specific details of these issues were not disclosed in the report to avoid the possibility of compromising FSFN security.*

**NOTE:** For purposes of this report, OSIA did not survey the applicable finding to avoid the possibility of compromising FSFN security.

**FINDING 9:** *Additional security controls protecting FSFN needed improvement. Specific details of this finding regarding Security Control issues were not disclosed in the report to avoid the possibility of compromising DCF and CBC security.*

**NOTE:** For purposes of this report, OSIA did not survey the applicable finding to avoid the possibility of compromising DCF and CBC security.

**FINDING 10:** *Disaster recovery planning by the CBCs did not always include appropriate planning for the recovery of IT resources.*

**RECOMMENDATION:** *The Auditor General recommended that to ensure the continuity of critical business operations, the CBCs should ensure that disaster recovery plans include proper provisions for backup and recovery of IT resources, including emergency locations for recovery procedures.*

**OSIA SURVEY QUESTION:** Does your organization have such a disaster recovery plan?

**SURVEY RESULTS:** Yes—16 No—3

**CBCs COMMENTARY:** One CBC is part of a larger healthcare system that has a very extensive disaster recovery plan, which is tested periodically. One CBC indicated that its disaster recovery plan provides for backup of all critical application data, full restore of critical software and daily operations data, and has the capacity to obtain appropriate hardware (and software) for complete recovery within 72 hours. Another CBC indicated that it performs specific data recovery tasks twice per year and that they have adapted from real-life disaster recovery scenarios experienced with the hurricanes of 2004. A fourth CBC indicated that testing is limited to periodic restore of lost or damaged files from back-up drives.



**RECOMMENDATION:** *In addition, the Auditor General recommended that CBCs should periodically test the disaster recovery plans for effectiveness.*

**OSIA SURVEY QUESTION:** Has your organization tested your disaster recovery plan? If "Yes", indicate frequency and date of last test in the COMMENTS section below.

**SURVEY RESULTS:** Yes—7 No—12

**AUDITOR NOTE:** Interestingly, of the 16 CBCs that has a disaster plan, only seven (7) had tested their plan and nine (9) had not.

**CBCs COMMENTARY:** Most "No" responses were not supplemented with comments. However, one CBC indicated that it recently outsourced its entire Information Technology (IT) function and a major re-evaluation of the disaster recovery plan is currently underway. Once this review has been completed, the CBC will be able to modify and test this plan. Another indicated that through the accreditation process, they discovered that their disaster recovery process for the IT network was inadequate and plan to implement an improved system in April or May of 2009, pending funding.

**FINDING 11:** *Certain environmental controls protecting CBC IT resources needed improvement.*

**RECOMMENDATION:** *CBC IT management should ensure proper environmental and physical controls are put in place and maintained for protection of IT equipment.*

**OSIA SURVEY QUESTION:** Has your organization's IT management completed a review of its environmental and physical controls to ensure that they are in place and maintained for protection of IT equipment?

**SURVEY RESULTS:** Yes—16 No—3

**CBCs COMMENTARY:** One CBC indicated that it uses monitoring hardware that continually assesses temperature, humidity, sound, door security, physical activity, network connectivity, and flooding. Another CBC indicates that its physical environment is tightly monitored and controlled and is well-equipped to handle disaster situations and referred to its IT infrastructure location as the "cold room" where generator and emergency power is tested monthly. A third CBC has reviewed the physical environment and has requested that some changes be made to improve conditions. Another indicated that it could not implement some of the environmental controls recommended as optimal by the Auditor General because of prohibitive costs.

Comments from one CBC that responded "No" indicated that this is a current year's project. Another CBC indicated that it had not reviewed the controls, but believed the security and control of server rooms was adequate. Also, they will add a review to their procedures.

**FINDING 12:** *Policies and procedures at Family Support Services were not current and lacked official adoption by the CBC.*

**RECOMMENDATION:** *Family Support Services should ensure that IT policies and procedures have been officially adopted by the CBC and are reviewed periodically and updated as needed to ensure that management's requirements are met.*

**OSIA SURVEY QUESTION:** Has your organization done the following for its Information Technology policies and procedures?

**SURVEY RESULTS**

	YES	NO
> Adopted/approved	17	2
> Periodically reviewed	16	3
> Updated	16	3

**CBCs COMMENTARY:** One CBC commented that all policies and procedures are reviewed and approved by DCF, pending Board approval. Another CBC indicated that DCF policies were followed, at this time, and that they have not written their own. A third CBC indicated that it has a policy and procedure manual (security, HIPAA compliance, change mgmt, access, etc) for its IT operations, which are reviewed periodically, updated as necessary and tested by external auditors. Another CBC indicated that its board of directors approves their policies, which are then forwarded to DCF. Another CBC is in the process of formalizing its IT policy and procedures. A CBC indicated that its policy and procedures needed review and updating. Yet another indicated that official written policy regarding IT operations was not maintained.

This follow-up audit was conducted as required by Florida Statute 20.055(3)(g) and section 2500.A1 of the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors. Elton Jones compiled this follow-up audit from representations provided by program management. Please address inquiries regarding this report to Jerry Chesnutt, Director of Auditing, at (850) 488-8722.