



FLORIDA DEPARTMENT OF STATE

RICK SCOTT
Governor

KURT S. BROWNING
Secretary of State

February 28, 2011

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

RE: Operational Audit , Procurement and Expenditure Processes and State Grants Administration, six month follow up

Dear Secretary Browning:

The Office of Inspector General (OIG) conducted a follow-up review applicable to the Auditor General's Report as referenced above. We have attached a copy of our report for your review.

As required by law, we have published our report on the status of the corrective actions taken by the Department and filed a copy of such response.

Please contact me if you require additional information.

Sincerely,

A handwritten signature in cursive script that reads "Ary L. Miller".

Ary L. Miller,
Management Review Specialist

Att.

cc. David Martin, Auditor General
Melinda Miguel, Chief Inspector General
Jennifer Kennedy, Acting Chief of Staff / Deputy Secretary
JuDee Dawkins, Deputy Secretary Cultural, of Historical and Information Programs

**STATUS OF CORRECTIVE ACTION(S) REPORT
FOR
AUDITOR GENERAL REPORT NUMBER 2011-017
DEPARTMENT OF STATE PROCUREMENT & EXPENDITURE
PROCESSES AND STATE GRANTS ADMINISTRATION
OCTOBER 2010**

Finding No. 1: 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.

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.

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.

Department's Response to the Status of Corrective Action for Finding No. 1:

The Department of State has developed a spreadsheet that lists of all of the Department's contracts. The list is maintained and updated in the Division of Administrative Services by the Support Services Administrator position. In addition to ensuring that the file is up to date, the position also maintains a copy of each contract.

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

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.

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.

Department's Response to the Status of Corrective Action for Finding No. 2:

The Department of State is continuing to update its property records as soon as it receives items that must be tagged.

The Department has established a process to account for items that are considered attractive and/or sensitive with a purchase price of less than \$1,000.00. The Accounting Services Supervisor in the Division of Administrative Services has been designated as the employee who is responsible for reviewing purchases and ensuring that attractive/sensitive items are added to the property inventory. Items such as laptops are being tagged regardless of cost. Other items are considered on a case-by-case basis. Whenever there is a question regarding the need to include an item on the property inventory, it is reviewed by the Director of Administrative Services for a final decision.

Finding No. 3: 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 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 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:

1. 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.
5. 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

Department's Response to the Status of Corrective Action for Cultural Affairs, Finding No. 3:

1. The Division has established July 30 as the postmark deadline date for all support materials for the Grant Report.
2. The Grant Expenditure Log was made part of the Grant Report for all 2010 grants rather than being submitted with the Support Materials. This will ensure that the log is received on a timely basis and allows program managers to verify how state funds were expended.
3. Program Managers have established individual desktop tracking systems that keep track of all open grants assigned to them. A wall-size tracking record sheet is also on display and available to Program Managers and Supervisors.
4. The grant close-out deadline of December 1 of each year has been established for all grants. *Closed-out* means that the report has been received, reviewed, problems corrected, and a Grant Closed notification sent to the grantee. All grant reports are subject to the existing *OCHIP Grants Compliance Procedures* found on the DOS Intranet.
5. The Division has formalized all of the program manager procedures in the *Application Review and Grants Management Procedures* desktop reference manual. This manual is available on the shared P drive and is updated regularly. The manual has been reviewed by all Program Managers and pertinent Support Staff.

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.

Department's Response to the Status of Corrective Action for Historical Resources, Finding No. 3:

The Division of Historical Resources Grants Program has implemented the corrective procedures delineated in the Division's Response to Auditor General Report Number 2011-017 and incorporated these procedures into the subsequent amendment to Rule 1A-39, FAC. The Division continues to review our internal grant procedures and Rules for additional administrative improvements. A contract review checklist was generated shortly after the audit findings were released and has been in use for all grants with contracts involving vendors, contractors and consultants.

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

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.

Agency's Response:

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

Department's Response to the Status of Corrective Action for, Finding No. 4:

In response to the audit finding that Department needs to 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, the Division is on schedule to complete the implementation of the following corrective action by June 30, 2011.

Improved security controls will be achieved by logging the following actions occurring within the system:

- application/grant status changes (who, when, what)
- user email changes (who, when, what)
- password resets (who, when, what)
- requests for access to organization profile (see 4&5 above)
- creating panelists (see 3 above)
- general profile changes (who, when)
- application/report changes (who, when)

Finding No. 5: 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 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 or 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.

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.

Department's Response to the Status of Corrective Action for FSAA, Finding No. 5:

The Department has developed a new database which tracks all active CSFA projects, these projects can be tracked by project number, csfa# or by division. Currently the database contains 284 grants and aids projects issued under the FSAA for FY 09-10. 116 projects were reviewed and closed or determined to be exempt from FRP as of February 21. In addition to determine which grants and aid required an FRP. 168 recipients were contacted to obtain documentation verifying the amount of their state expenditures during the corresponding fiscal year.