REPORT NO. 2013-090
FEBRUARY 2013

# DEPARTMENT OF MANAGEMENT SERVICES

## LEASE MANAGEMENT, COST ALLOCATIONS, AND PRIOR AUDIT FOLLOW-UP

## Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

## SECRETARY OF THE DEPARTMENT OF MANAGEMENT SERVICES

The Department was created pursuant to Section 20.22, Florida Statutes. The head of the Department is the Secretary, who is appointed by the Governor and subject to confirmation by the Senate. The following Secretaries served the Department during the period of our audit:

| | |
|---|---|
| Craig Nichols | From July 9, 2012 |
| Scott Stewart, Interim | April 1, 2012, Through July 8, 2012 |
| Jack Miles | January 26, 2011, Through March 31, 2012 |
| David Faulkenberry, Interim | January 4, 2011, Through January 25, 2011 |
| Linda South | Through January 3, 2011 |

The audit team leader was Robin Ralston, CPA, and the audit was supervised by Frank Becton, 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.

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# DEPARTMENT OF MANAGEMENT SERVICES

Lease Management, Cost Allocations, and Prior Audit Follow-Up

## SUMMARY

**This operational audit of the Department of Management Services (Department) focused primarily on lease management, particular administrative matters, and key information technology controls. This audit also included evaluating actions taken by the Department to correct deficiencies disclosed in audit report No. 2011-175.**

**LEASE MANAGEMENT**

**Finding No. 1: Contrary to State law, the Department had not adopted rules providing guidance for several leasing processes, such as, for example, the processes relating to State agency reporting.**

**Finding No. 2: The Department had not updated its Leasing Manual and Guidelines (Manual) since 2006. In addition, the Manual contained several errors.**

**Finding No. 3: Reports issued by the Department did not provide or adequately address all the information required by law.**

**Finding No. 4: Florida Facilities Pool (FFP) lease payments were not always timely received, and the Department had not established procedures to reasonably ensure the collection of late lease payments.**

**Finding No. 5: Contrary to bond resolution clause, the Department, in some instances, had set and applied rental rates for space in the FFP that were nominal in amount.**

**Finding No. 6: Contrary to the requirements of State law and Department contracts, the Department did not conduct tenant-broker customer satisfaction surveys. We also found that the tenant broker contracts with the Department were extended, then renewed, despite not having performed such surveys.**

**Finding No. 7: The Department did not have written procedures for assigning, reviewing, or terminating system access to the Facilities Accountability Communications Tool (FACT) and to the Department's accounts receivable application.**

**Finding No. 8: Other security controls protecting Department information technology resources needed improvement.**

**Finding No. 9: The Department had not developed a FACT user manual.**

**COST ALLOCATIONS**

**Finding No. 10: The Department did not have written procedures for its internal cost allocation process.**

**PRIOR AUDIT FOLLOW-UP**

**Finding No. 11: Improvements were needed to ensure that access to and security over the Florida Accounting Resource Subsystem (FLAIR) was not compromised.**

## BACKGROUND

The Department of Management Services (Department) serves as the business arm of State government. As such, the Department is responsible for:

- Consolidating the State's purchasing power to deliver the best value in goods and services for State agencies and local governments;
- Managing construction projects and buildings used by the State;

- Providing telecommunication services to State and local governments to simplify access to government information, keeping data and services secure, and adding value and reducing costs for services; and
- Managing the State Personnel System, including insurance benefits, retirement system, and human resource management.

As directed by statute, the Department also provides administrative services, as requested, to designated related entities that are not subject to control, supervision, or direction by the Department. Such entities consist of the Department of Administrative Hearings (DOAH), Florida Commission on Human Relations (FCHR), Public Employees Relations Commission (PERC), Northwood Shared Resource Center (NSRC), and the Southwood Shared Resource Center (SSRC).[1]

## FINDINGS AND RECOMMENDATIONS

### Lease Management

The Department is responsible for the oversight of the State's leasing of space in private sector buildings, as well as space provided by other governmental (Federal and local) entities. The Department's Division of Real Estate Development and Management (REDM) oversees, reviews, and approves agency estimates of space needs and proposed lease conditions. Agencies must use competitive processes to lease space of 5,000 square feet or more and typically are to enter into leases using a standard agreement developed by the Department. Agencies may not lease privately-owned space when suitable space is available in a State-owned building in the same geographic region, unless prior Department approval is provided.

In addition to providing oversight of State agency space needs and lease conditions, the Department has statutory responsibility for the management, operation, and maintenance of the Florida Facilities Pool (FFP) and oversight of the State's leasing of space therein.[2] The FFP consists of all State-owned buildings under the Department's jurisdiction at the time the FFP was created in 1985 and buildings the Department has since constructed or acquired.[3]

In performing daily lease management functions for the FFP, Department staff utilized the Facilities Accountability Communications Tool (FACT) and the Department's accounts receivable application. FACT is an in-house developed, Web-based system used by Department personnel to manage a number of functions including building construction and maintenance, legal work, and lease management.

As part of the FFP lease billing process, invoices are generated quarterly by FACT and uploaded into the Department's accounts receivable application by Bureau of Financial Management Services (Financial Management) personnel. As of April 10, 2012, the accounts receivable application held 3,415 active customer accounts.

According to the Department, as of July 1, 2011, there were 1,174 leases, totaling over 13.9 million square feet, with associated annual rental charges of approximately $253 million.

[1] Sections 20.22, 120.65, 447.205, 760.04, 282.204, and 282.205, Florida Statutes.
[2] Chapter 255, Florida Statutes.
[3] Section 255.505, Florida Statutes.

**Table 1**
**Summary of Leases**

| Lease Type | Number of Leases | Total Square Footage | Percent of Total Leased Space | Sum of Annual Rental Charges |
|---|---|---|---|---|
| Private | 848 | 7,780,709 | 56% | $151,332,433 |
| Florida Facilities Pool | 203 | 5,754,894 | 41% | 97,797,865 |
| Other Government | 123 | 400,329 | 3% | 3,849,801 |
| **Total** | **1,174** | **13,935,932** | **100%** | **$252,980,099** |

Source: Department 2011 Master Leasing Report.

## Finding No. 1: Lease Management Rules

State law provides the Department with powers and duties to adopt rules necessary to carry out specified lease management processes.[4] Although State law instructed the Department to adopt lease management rules, we noted that the Department had not adopted rules providing administrative requirements for the following leasing processes:

- Procedures for soliciting and accepting competitive solicitation for leased space of 5,000 square feet or more in privately owned buildings, as well as for evaluating the proposals received;
- A standardized format for State agency reporting of information required by State law;[5]
- Maximum rental rates, by geographic areas or by county, for privately owned space; and
- A method for reporting leases of nominal or no consideration.

Absent required and authorized rules, agencies and private businesses may have insufficient direction regarding lease management processes.

**Recommendation: To ensure State agencies and other parties are provided with authoritative lease management direction, we recommend that the Department adopt rules to incorporate provisions required by State law.**

## Finding No. 2: Policies and Procedures

The Division issued its revised *Leasing Manual and Guidelines* (*Manual*) in 2006, and according to the *Manual*, the *Manual's* ten chapters were to provide "…everything [the agencies needed] … to procure rental space for the State of Florida." The *Manual* should include information to assist State agency management in correctly applying applicable State laws and rules. Our audit disclosed that since 2006, the *Manual* has not been updated.

Our review of the *Manual* chapters related to lease management processes for which rules had not been adopted (see Finding 1 above), disclosed the following errors attributable to the lack of *Manual* updates:

- Two forms (the Discriminatory Addendum and the Public Hurricane Shelter Addendum) were listed as required, but were no longer required, as the forms' requirements were incorporated into the standard lease agreement approximately two years ago;
- One form, the Lease Requirement Justification, was no longer used, as agencies were required to submit justification on agency letterhead with a signature from the agency head.

Such errors in guidance can result in wasted effort and decrease users' confidence in assistance provided.

[4] Sections 255.249 and 255.25001(2), Florida Statutes.
[5] Section 255.249(3)(d), Florida Statutes.

**Recommendation: We recommend that the Department update its *Manual* to provide current and correct information.**

## Finding No. 3: Leasing Reports

State law[6] requires the Department to annually publish a Strategic Leasing Plan (SLP) that forecasts space needs for all State agencies and identifies opportunities for reducing costs through consolidation, relocation, reconfiguration, capital investment, and the building or acquisition of State-owned space. While the SLP is a standalone document, it is also a component of the Department's Master Leasing Report (MLR), which is to provide a comprehensive assessment of the State's leasing portfolio and serve to address the five-year plan requirement of State law.[7]

The MLR is to be furnished to the Executive Office of the Governor and the Legislature by September 15 of each year and is to contain specific information outlined in State law.[8] Our review of the MLR and SLP issued in 2011 disclosed that the reports did not provide or adequately address the following statutory requirements:

SLP:

- *A forecast for all space needs for all State agencies.* In explanation, Department personnel indicated that the report user could by considering several different reported topics together, such as those addressing the, five major markets,[9] Optimization of State-Owned Buildings,[10] and the Leon County Master Plan, evaluate whether agencies' needs were being addressed. However, absent the Department's performance and reporting of the required forecast, report users cannot readily compare projected space availability to the future needs of all State agencies.

MLR:

- *A determination of whether sufficient State-owned office space will be available at the expiration of the lease to accommodate affected employees.* Although the conclusion was not included in the report, Department personnel upon inquiry advised us that there was not enough FFP space available to fill all the space needs provided through private leases.
- *Changes to occupancy costs in leased space by market and changes to space consumption by agency and by market.* Again although not reported, Department personnel indicated that the occupancy rate within FFP buildings remained high at 96.2 percent and has essentially not changed over the past eight years. Department personnel also stated that cost initiatives have been undertaken to help reduce the occupancy costs and stay within budget.
- *Cost-benefit analysis of acquisition and building opportunities.* Department personnel stated that a cost-benefit analysis would be performed as needed and that one was not needed in the 2011 MLR. However, as noted above, because of the failure to develop a forecast of the needs of State agencies, the Department may not have sufficient information to timely determine the need for cost-benefit analyses.

The failure to adequately address the statutory reporting requirements makes the reports less useful to those who must make informed decisions relating to the State's budget, leasing portfolio, and the FFP.

[6] Section 255.249(3)(b), Florida Statutes.
[7] Section 255.25(4)(c), Florida Statutes.
[8] Section 255.249(3)(c)1. through 8., Florida Statutes.
[9] The five major markets include the following counties (Leon, Miami-Dade, Orange, Duval, and Broward Counties).
[10] Optimization of State-Owned Buildings involves: ensuring that State-owned space is used before private sector lease is approved; back-filling vacant space as appropriate with minimal renovation; reconfiguring and remodeling FFP assets to improve space usage, house more State employees, and shrink overall footprint of the State's private lease portfolio; and exploring alternative workplace solutions (telecommuting, hoteling, and satellite offices).

**Recommendation: We recommend the Department work to ensure all required statutory report elements are included within the MLR and SLP.**

## Finding No. 4: Florida Facilities Pool Lease Revenue

State law[11] directs the Department to create and manage the FFP in order that agencies may participate, and thereby pool the rentals to be paid by such agencies at uniform rates with additional charges for services provided, and to authorize the issuance of obligations secured by and payable from such rentals and charges. Pursuant to State law,[12] the Department is to establish rental rates at amounts that are to be sufficient to cover debt service on the obligations (revenue bonds), capital depreciation reserves, and FFP operations and maintenance costs.

As noted in Table 1 above, the Department, in its 2011 Master Leasing Report (MLR), disclosed that as of July 1, 2011, there were 203 State agency (e.g., public) leases for space within the 69 revenue-producing FFP buildings, with the sum of annual rental charges totaling approximately $98 million. Department records also indicated that $32.5 million was paid for debt service and $6.6 million was directed to the capital depreciation reserve used to fund major renovations to FFP facilities.

FFP revenue bond covenants establish the time frames within which the Department must submit invoices to agencies leasing space in the FFP. The covenants also outline the dates that invoices are due and payable to the Department as well as the procedures to be performed when payments are late.

Our test of the Department's application of collection procedures for 40 lease payments totaling approximately $4.8 million, disclosed the following:

- The covenants state that prior to the 1st business day of each quarter (March, June, September, and December), the Department must send an invoice for rent and additional charges to each agency leasing space within the FFP. Invoices are due and payable to the Department on the 15th day of the next succeeding month. The covenants provide that in the event the Agency fails to pay all amounts due by the 25th day of the month in which due, the Department is authorized to instruct the Chief Financial Officer (CFO) to transfer the amounts due as outlined in State law[13] from General Revenues withheld from such agencies. We found that the Department had timely sent invoices. However, of the 40 lease payments tested, 17 totaling $2.1 million, were submitted to the Department 5 to 132 days late, with 9 of the 17 payments being more than 30 days late. Our audit disclosed that the Department had not instructed the Chief Financial Officer (CFO) to transfer the amounts due from General Revenues withheld from the agencies. Our tests indicated that the debt service payments had been made timely by the State. However, it is essential that the Department ensure that all obligations are timely satisfied in accordance with bond covenant requirements.
- We found that the Department had not established written procedures for the collection of late lease payments and did not document efforts made to collect late lease payments. Although the Department had established a monthly aging report that listed those agencies with invoices past due, there was no documentation available to demonstrate efforts taken by the Department to collect the amounts overdue.

**Recommendation: We recommend the Department establish written procedures ensuring agency and Department compliance with bond covenant terms relating to the payment of lease charges.**

[11] Section 255.505, Florida Statutes.
[12] Section 255.503(1), Florida Statutes.
[13] Section 255.521, Florida Statutes.

**Finding No. 5: Florida Facilities Pool Lease Rental Rates**

State law requires the Department to adopt rules providing for a standard method for the assessment of rent to State agencies and other authorized occupants of State-owned office space. Additionally, the Department is responsible for determining and establishing rental rates charged and computed on a per-square-foot-basis for all facilities in the pool whether or not of new construction. Such rates must be applied uniformly to all agencies using or occupying space in the FFP, with additional charges based upon the elements of service and special requests incidental to facilities in the pool. The FFP bond resolution states that REDM may not furnish or supply or cause to be furnished or supplied in contravention of any applicable law, any use of the facilities, free-of-charge to any person, firm, or corporation, whether public or private.[14]

Our review of lease information included in the Department's Facilities Accountability Communications Tool (FACT) System as of February 2012, disclosed 16 instances in which the Department had, based on the FACT System information, applied nominal rates ($0 to $1) to FFP space. As shown in Table 2 below, the Department could not provide in some instances either the lease agreement, the justification for the nominal rates charged, or an explanation why the rate recorded in FACT differed from the rate shown by the lease agreement. Department staff indicated that they were in the process of comparing the total square footage of space in each of the FFP buildings to the actual leases to determine that the square footage of space is the actual amount of space being used by the leases.

[14] Section 710.2, *Florida Facilities Pool Revenue Bond Resolution.*

**Table 2**
**Lease Rental Rate Deficiencies**

| No. of Leases | Type of Space | Square Footage Per FACT | Annual Rent Per FACT | Annual Rent Per Lease Agreement | Actual Rent Collected | Potential Annual Rent Forgone [a] | Auditor's Notes |
|---|---|---|---|---|---|---|---|
| 5 | Full service, nonfull service, and storage | 4,924 | $0 | Could not determine. | $0 | $67,036.35 | The Department was not able to provide the lease agreements. |
| 2 | Storage | 4,181 | $0 | $1 | $0 | 18,503.07 | FACT indicated the annual rate to be $0 while the lease agreement required $1. No rent was collected and no specific authority was provided to support the provision of FFP space at a nominal rate. |
| 2 | Full service office | 620 | $0 | $276.93<br>$786.60 | $0 | 10,651.60 | FACT indicated the annual rate to be $0 while the lease files indicated quarterly payments of $276.93 and $786.60 were required. No rent was collected and no specific authority was provided to support the provision of FFP space at a nominal rate. |
| 7 | Full service offices and storage | 20,671 | $0 | $0 | $0 | 340,812.76 | No rent was collected and no specific authority was provided to support the provision of FFP space at a nominal rate. For two of the leases, FACT indicated the square footage to be zero while the lease agreements indicated that the square footage varied. |
| **16** | | | | | | **$437,003.78** | |

[a] Potential annual rent forgone calculated using the square footage and price per footage for similar lease type.

Source: Department records.

Absent complete and accurate records, the Department cannot ensure that all rental income is assessed and collected.

**Recommendation: We recommend that the Department establish procedures to ensure that leases for all FFP space are accounted for, all rental income is collected, and that lease agreement data is accurately and completely recorded in FACT.**

## Finding No. 6: Tenant-Broker Services - Customer Surveys

The Department had contracts with three real estate brokerage companies who were to assist the Department in making more efficient and economical use of private sector lease agreements, provide planning and support services to the Department's leasing program, and support the agencies in their leasing actions. State tenant broker contracts allow agencies to use these companies to:

- Act as the agency's tenant broker to competitively negotiate and develop private sector lease agreements.
- Provide space management services using Department recommended space utilization standards.
- Provide tenant representation services for agency during the term of a lease.

- Help identify strategic opportunities for reducing occupancy costs through the consolidation, relocation, reconfiguration, capital investment, and the building or acquisition of State-owned space.
- Outline any additional services or concepts for adding value to the agency and Department processes. Services of the State tenant brokers can also include an evaluation of possible energy efficiency solutions and savings.

Pursuant to State law,[15] the Department is to conduct periodic customer surveys. To implement the requirements of the law, the amended tenant broker term contracts contained "Section 2.5 Customer Satisfaction Surveys," which stated that the Department "shall conduct periodic (at least quarterly) customer-satisfaction surveys to monitor [the contractor's] performance" and use the survey results to improve contractor performance.

Our audit disclosed that, contrary to law, no surveys had been completed as of November 7, 2012. Absent the conduct of the surveys, the Department may lack the information needed to improve both contractor performance and agency utilization of the available services and expertise. Despite the lack of the performance information that could be derived from the surveys, all three tenant broker contracts were renewed in August 2011.

**Recommendation: We recommend that periodic customer satisfaction surveys be conducted of tenant broker services in accordance with State law and Department contracts.**

## Finding No. 7: Security Controls – Access Privileges

Effective security controls include logical (electronic) access controls that restrict legitimate and appropriate users to the specific information technology (IT) resources needed and prevent others from accessing the resources. Agency for Enterprise Information Technology (AEIT) Rule 71A-1.007(3), Florida Administrative Code, provides that workers shall be authorized access to agency IT resources based on the principles of least privilege (the principle that grants the minimum possible privileges to permit a legitimate action) and need to know (the principle that individuals are authorized to access only specific information needed to accomplish their individual job duties). AEIT Rule 71A.007(2), Florida Administrative Code, provides that agency information owners shall review access rights periodically based on risk, access account change activity, and error rate.

Our audit disclosed that the Department lacked documentation of Facilities Accountability Communications Tool (FACT) user roles that could be used by Department managers to review periodically the appropriateness of the access rights granted. Additionally, the Department had not developed written procedures for assigning, reviewing, or terminating access to FACT or the accounts receivable application. Had such procedures been in place, they may have prevented the accounts receivable application system administrator from being improperly assigned to the Receivables Managers group, an access group that was allowed to enter customer and payment information. The accounts receivable application system administrator did not require such access to accomplish assigned duties.

Limiting access privileges to only that needed in the performance of assigned job duties helps protect IT resources from unauthorized disclosure, modification, and destruction. Excessive access privileges within systems increase the risk of errors, fraud, misuse, or unauthorized alteration of data and IT resources.

**Recommendation: We recommend that the Department establish written procedures for assigning reviewing, and terminating access to FACT and the accounts receivable application. Additionally, we recommend that the Department limit access privileges to only that needed in the performance of assigned job duties.**

[15] Section 255.25(3)(h)6., Florida Statutes.

### Finding No. 8: Security Controls – Authentication and Audit Logs

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain Department security controls related to authentication and audits logs that needed improvement. To avoid the possibility of compromising Department data and IT resources, we are not disclosing in this report specific details of these issues. However, we have notified appropriate Department management of the specific issues. Without adequate security controls related to authentication and audit logs, the risk is increased that the confidentiality, integrity, and availability of data and IT resources may be compromised.

**Recommendation: We recommend that the Department strengthen certain security controls to reduce the risk of Department data and IT resources being compromised.**

### Finding No. 9: FACT User Manual

Adequate system documentation allows for the transfer of knowledge and skills to new employees, thus promoting the effective and efficient use of systems in support of business processes. Although our audit disclosed that the Department did maintain some limited "how to procedures," there was no comprehensive FACT system documentation maintained and communicated.

The lack of a current user manual increases the risk of users not performing their job functions efficiently and timely, critical dependency on key individuals, and ineffective system knowledge transfer.

**Recommendation: We recommend that the Department create and maintain a FACT user manual and establish a periodic review process to ensure that the manual is updated as appropriate to reflect current system operations.**

## Cost Allocations

### Finding No. 10: Internal Cost Allocation

Properly designed and executed cost allocation methodologies are essential to ensure Department management and the Legislature have accurate and complete information related to the costs to operate the various organizational units and programs of the Department. Such methodologies should provide for proper identification of costs to be allocated and the use of allocation bases that reasonably and rationally associate costs with the organizational units and program activities that receive the benefits from the costs incurred.

The Department has administrative responsibility for an array of organizational units and programs, the direct costs of which are recorded within the accounts of a variety of statutorily authorized trust funds. In addition, these units and programs benefit directly from general services provided by Department administrative units (e.g., Information Technology, Office of the Secretary, Communications, General Counsel, Inspector General, Legislative Affairs, Budget, Human Resources, Procurement, Mailroom, and Finance and Accounting). To recognize and record the costs associated with these benefits, the Department establishes cost pools for these administrative units, and identifies for each pool the factors to be used to allocate estimates of pool costs for other Department organizational units and programs. More specifically, each June, the Department's Bureau of Financial Management Services, based on the estimates of costs and activities prepared by the Department's Office of Planning and Budget, calculates the amounts that are to be allocated and charged to each organizational and program unit during the ensuing fiscal year.

These amounts are then subsequently transferred from the organizational and program unit accounts to the Department's Administrative Trust Fund. Pursuant to the Department's 2010-11 fiscal year Legislative Budget Request (LBR), and as shown in Table 3, the Department identified 14 administrative costs pools and their associated cost bases used in the allocation process.

**Table 3**
**Cost Allocation Methodology**

| **Administrative Cost Pools** - *Cost Bases* | |
|---|---|
| **Office of the Secretary** – *Appropriation and full-time equivalent (FTE) positions* | **Financial Management Services (FMS) – Control Section** - *Average Percent of Disbursements and Revenue Transactions* |
| **Information Technology** - *Appropriation and FTE's* | **FMS – Revenue** – *Revenue Transactions* |
| **Communications** - *Appropriations and FTE's* | **FMS – Disbursements** - *Disbursement Transactions* |
| **General Counsel** - *Hours worked* | **Human Resources** - *Number of Positions* |
| **Legislative Affairs** - *Appropriations and FTE's* | **Print Shop** - *Printing Costs Operations* |
| **Office of the Inspector General** - *Appropriations and FTE's* | **Mail Room** – *Pieces of Mail* |
| **Budget Office** – *Appropriations* | **Department Purchasing** – *Purchase orders processed* |

Source: Department's LBR.

During the 2010-11 fiscal year, 27 program entities were assessed a total of $6,416,104 in administrative expenses. For fiscal year 2011-12, 23 program entities were assessed a total of $6,488,531 in administrative expenses.

As part of our audit, we examined the cost allocation methodology for 5 of the 14 cost pools for the 2010-11 fiscal year allocation. For the 2011-12 cost allocations, we performed analytical reviews that included comparisons of the 2010-11 fiscal year allocation amounts to the 2011-12 fiscal year allocation amounts and obtaining explanations for any material differences. Our review disclosed the following weaknesses in the Department's cost allocation processes:

- Written guidance in the form of approved written policies and procedures was needed to ensure that the allocation is properly performed. Our audit disclosed that the Department had not established written policies and procedures outlining the cost allocation process, including policies and procedures relevant to the review and approval of the cost allocation methodology and calculations. As shown in Table 3, the Department had established a complicated process for determining the costs assessed to the various program entities, but had only two individuals who understood the process, one being the Financial Management Bureau Chief and the other being a Professional Accounting Supervisor. With the complexity of the allocation process and lack of written guidance, there was a greater risk that if a change in staff should occur, errors or inconsistencies could occur in the allocation process.

- The costs recovered by the Administrative Trust Fund had exceeded the actual costs incurred. Our review of the LBR's for the 2010-11, 2011-12, and 2012-13 fiscal years disclosed that the Administrative Trust Fund's fund balance had grown by more than $500,000 since June 30, 2009, and that Department investment balances had increased at each fiscal year end.

**Table 4**
**Unreserved Fund Balance and Investment Totals**

| Balance as of | Unreserved Fund Balance | Investment Total |
|---|---|---|
| July 1, 2009 | $1,005,106 | $1,019,348 |
| July 1, 2010 | $ 997,352 | $1,174,046 |
| July 1, 2011 | $1,522,214 | $1,695,684 |

Source: Department's LBR.

We found that the Department had not taken steps to determine the specific factors leading to the over-assessments and had not determined the fund balance amount that should be maintained in the Administrative Trust Fund. The specific factors leading to the over-assessments could be isolated by the Department by reconciling the estimated costs calculated for each participating organizational and program unit to the corresponding actual costs incurred for the period.

- The Department incorrectly allocated costs among the Pretax Insurance Trust Fund and the State Health Insurance Trust Fund for the 2010-11 fiscal year. The error, caused by using an incorrect number of employee positions in the calculation, resulted in overcharging the Pretax Insurance Trust Fund by $101,784 and undercharging the State Health Insurance Trust Fund by $101,796. Department management responsible for reviewing the calculations stated that knowledge of appropriations and FTE's were used to review amounts for reasonableness and look at increases and decreases between the years. However, Department personnel also indicated that the review process was at such a high level that some errors may go undetected and program entities may be allocated inappropriate amounts.

**We recommend that the Department:**

- **Establish written policies and procedures that outline the cost allocation and review process and that include provisions requiring reconciliations of total assessed costs to actual costs.**
- **Determine the fund balance amount needed to maintain sufficient cash flow within the Administrative Trust Fund and incorporate the amount within the written policies and procedures.**

***In its response to this finding, the Department did not agree with our recommendations and cited a procedure or process already in effect. As indicated by the finding, the existing procedure and process have been ineffective in controlling the accumulation of moneys in the Fund, as evidenced by the fiscal year-end balances shown in Table 4. The Department should take action to reasonably ensure that an excess balance is not maintained in the Fund.***

## PRIOR AUDIT FOLLOW-UP

Our review of selected actions taken by the Department to address the findings included in audit report No. 2011-075 disclosed that the Department generally had taken appropriate actions for the applicable findings, except as noted in finding No. 11 below.

### Finding No. 11: FLAIR Access Controls

The Department relies on the Florida Accounting Information Resource Subsystem (FLAIR) to record and report its financial transactions. Information stored and processed by computer systems such as FLAIR must be adequately protected against unauthorized access, use, disclosure, or destruction. Properly implemented and managed access

controls limit the risk of unauthorized or erroneous modification or destruction of the Department's information resources. Access controls include software that limits user access to defined programs and data files. During our review, we noted the following access control deficiencies:

- Employees performing financial management functions had update access capabilities to FLAIR that were incompatible. Thirteen employees had update access to both the disbursement and cash receipts functions; five employees had inappropriate update capabilities to both the disbursement and vendor file functions; and four had update capabilities to both fixed assets accounting and fixed assets custodial functions. These incompatible duties circumvent the hierarchy of controls that FLAIR security access was designed to protect.
- In five instances, employees were assigned multiple user names and user identification (ID) codes, each having access to FLAIR and the ability to update FLAIR. Good business practices dictate that each user be limited to one user ID in order to assign a limited and specific level of FLAIR access to each authorized user.
- Access to FLAIR was not always timely revoked for terminated employees. We reviewed the FLAIR access records for 19 employees with FLAIR update capabilities who had separated from the Department during the period July 2010 through February 2012. Our tests disclosed seven employees' FLAIR access privileges were not removed for periods ranging from 6 to 154 days after the employees separated from the Department.

Although the Bureau of Financial Management Services performed quarterly reviews of FLAIR access privileges, as required by the Bureau's Access Control Policy,[16] the Bureau had no written procedures providing guidance for this review. In addition, these Bureau reviews of FLAIR access did not identify the excessive access disclosed above.

Effective controls should limit access to FLAIR to prevent and detect any improper or unauthorized use, as well as promote an adequate separation of incompatible access privileges. As similarly noted in our Report No. 2011-075, Department controls over FLAIR user accounts were not sufficient to ensure that access was granted only to the FLAIR modules that were necessary to, and compatible with, an employee's current position responsibilities.

**Recommendation: We recommend that the Department establish written procedures addressing the periodic review of FLAIR access privileges to identify excess and incompatible privileges granted to employees. Additionally, we recommend that the Department perform a routine identification of terminated employees to ensure that FLAIR access privileges are timely removed.**

***The response to this finding indicates that the Department did not concur with our recommendation because it already had written procedures for reviewing FLAIR access privileges. While we agree that the Bureau had adopted a written policy that required Finance and Accounting to review an access control report on a quarterly basis, written procedures to effectively implement the policy had not been established, as evidenced by the significant number of instances in which inappropriate access privileges were found to exist. The adoption and application of specific procedures would enhance the Department's FLAIR access controls.***

## 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.

[16] The Access Control Policy states that access control will be granted at the written request of the supervisor or other management personnel. Updates to an employee's access module can only be made at the request of the supervisor. The Access Control Personnel will make the necessary changes and ensure all current modules are still needed by the employee. Finance and Accounting will review the access control report on a quarterly basis to ensure the employee only has access to modules necessary to complete his/her job duties.

We conducted this operational audit from January 2012 to July 2012 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 lease management, information technology, and additional administrative matters. 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 determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in audit report No. 2011-075.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 1, 2010, through February 29, 2012, and selected actions through June 2012. In conducting our audit we:

- Reviewed State law, Department rules, and Bureau procedures to determine whether the Department had adopted rules required by Florida Statutes.
- Reviewed the 2011 Strategic/Five Year Leasing Plan, the 2011 Master Leasing Report, and the Leon County Master Plan to determine whether they complied with relevant governing laws, rules, and policies and procedures related to lease management.
- Examined 11 public leases and 4 government leases having lease actions initiated during the period July 2010 through February 2012. We also examined 24 private lease actions initiated during the period July 2011 through February 2012. Our examination of lease actions (new lease, modification, extensions) was to determine whether the Department lease agreements were in compliance with applicable laws and were in the best interest of the State.
- Examined 40 public lease invoices totaling $4,807,551.94 billed during the period July 2010 through February 2012 to determine whether the invoices were supported by Department records, the revenues were properly reported in Department and State accounting records, and whether the revenues collected were appropriately allocated and transferred to the State Board of Administration.
- Examined the 3 tenant broker contracts and all amendments (extensions, restatements, renewals, and change of deliverables) entered into during the period July 2010 through February 2012 to determine whether the amendments were in accordance with applicable State laws, rules, and regulations.
- Performed an Information Technology Controls Evaluation on two of the Department's major application systems, the Facilities Accountability Communications Tool (FACT) system and the accounts receivable application to determine if selected application IT controls were in place.
- Performed an analysis comparing invoice data reported in the accounts receivable application with lease data reported in the FACT System to determine the completeness of the data.
- Reviewed the MFMP Business Case and performed inquiries to determine whether the plan complied with statutory requirements.
- Performed an analysis of the Department's methodology for allocating internal costs totaling $6,537,313 for fiscal year 2010-11 and $6,488,531 for fiscal year 2011-12 to determine whether the methodology was reasonable and fairly administered.
- Reviewed the three health maintenance settlement agreements related to the invitation to negotiate to determine whether the settlement agreements were materially in agreement with the original invitation to negotiate specifications.
- To determine the existence of incompatible or excessive FLAIR access privileges, reviewed FLAIR access controls files for 29 active employees with significant update capabilities.
- To determine the timeliness of the deactivation of FLAIR access privileges, reviewed FLAIR access controls files for 19 employees who terminated employment during the period July 2009 through February 2012.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Communicated on an interim basis with applicable Department officials to ensure the timely resolution of issues involving controls and noncompliance.
- 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 periodic 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 January 15, 2013, the Secretary of the Department provided responses to our audit findings and recommendations. The Secretary's response is included as **EXHIBIT A**.

## EXHIBIT A
## MANAGEMENT'S RESPONSE

RICK SCOTT
Governor

DEPARTMENT OF MANAGEMENT
SERVICES

CRAIG J. NICHOLS
Agency Secretary

4050 Esplanade Way | Tallahassee, Florida 32399-0950 | Tel: 850.488.2786 | Fax: 850.922.6149

January 15, 2013

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

Dear Mr. Martin:

Pursuant to paragraph 11.45(4)(d), Florida Statutes, this is our response to your report, *Department of Management Services, Lease Management, Cost Allocations, and Prior Audit Follow-Up*. Our response corresponds with the order of the findings and recommendations contained in the draft report.

If further information is needed concerning our response, please contact Walter Sachs, Inspector General, at 488-5285.

Sincerely,

Craig J. Nichols
Agency Secretary

Attachment

cc: Erin Rock, Chief of Staff
Stacy Arias, Deputy Secretary, Business Operations
Debra Forbess, Director, Administration
Tom Berger, Director, Real Estate Development and Management
Stephanie Leeds, Director, Legislative Affairs
Ben Wolf, Director, Communications
Joe Wright, Chief Information Officer
Mitchell Clark, Chief, Bureau of Financial Management Services

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

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**Department of Management Services' Response to the Auditor General's Preliminary and Tentative Report, Department of Management Services, Lease Management, Cost Allocations, and Prior Audit Follow-Up**

### LEASE MANAGEMENT

**Finding No. 1: Lease Management Rules**

Contrary to State law, the Department had not adopted rules providing guidance for several leasing processes, such as, for example, the processes relating to State agency reporting.

**Recommendation:**

To ensure State agencies and other parties are provided with authoritative lease management direction, we recommend that the Department adopt rules to incorporate provisions required by State law.

**Response:**

Concur: The Department will amend its Annual Regulatory Plan and work to adopt rules to address the issues discussed in this finding within the next 12 months.

**Finding No. 2: Policies and Procedures**

The Department had not updated its *Leasing Manual and Guidelines (Manual)* since 2006. In addition, the *Manual* contained several errors.

**Recommendation:**

We recommend that the Department update its *Manual* to provide current and correct information.

**Response:**

Concur: The Department will update its *Manual*, concurrent with statutory and administrative code revisions, no later than December 31, 2013.

**Finding No. 3: Leasing Reports**

Reports issued by the Department did not provide or adequately address all the information required by law.

**Recommendation:**

We recommend the Department work to ensure all required statutory report elements are included within the Master Leasing Report (MLR) and Strategic Leasing Plan (SLP).

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

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**Response:**

**Strategic Leasing Plan (SLP):**

Concur: The Department will work to more clearly identify a forecast for agency space usage within the SLP for future reporting cycles. For the 2013 reporting cycle, the Department will use the better, more granular data provided in 2012 to benchmark agency space needs and fluctuations. The Department will continue to benchmark data for several years, improving the required forecast for report users.

**Master Leasing Report (MLR):**

- Concur: The Department addressed this requirement in its 2012 MLR and will continue to do so in future reports.

- Concur: Without the full FL-SOLARIS inventory, which includes agency-reported occupancy costs, the Department has been fully reliant on agency partners and the state's tenant brokers to determine occupancy costs. The Department will continue to utilize the data provided by the tenant brokers to document trends in occupancy costs by market. For the 2013 reporting cycle, the Department will use the better, more granular data provided in 2012 to benchmark agency need fluctuations to better provide a forecast for agency space needs and better determine changes to occupancy costs for inclusion in the MLR. The Department will continue to benchmark data for several years, improving the required forecast for report users.

- Concur: A cost benefit analysis for acquisition and construction opportunities is performed as needed throughout the year. With declining positions and continued space consolidation efforts, the Department did not identify a need for the acquisition or construction of additional space; however, the Department will more clearly communicate its response in future reports. The Department is currently working with a tenant broker to develop strategic recommendations for the disposition, acquisition, or building of new state-owned facilities. This analysis will provide informed, data-driven recommendations that the Department will clearly communicate in future reports.

**Finding No. 4: Florida Facilities Pool Lease Revenue**

Florida Facilities Pool (FFP) lease payments were not always timely received, and the Department had not established procedures to reasonably ensure the collection of late lease payments.

**Recommendation:**

We recommend the Department establish written procedures ensuring agency and Department compliance with bond covenant terms relating to the payment of lease charges.

**Response:**

Concur: The Department will include procedures for processing FFP rent payments in its revised Leasing Manual no later than July 31, 2013.

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

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**Finding No. 5: Florida Facilities Pool Lease Rental Rates**

Contrary to bond resolution clause, the Department, in some instances, had set and applied rental rates for space in the FFP that were nominal in amount.

**Recommendation:**

We recommend that the Department establish procedures to ensure that leases for all FFP space are accounted for, all rental income is collected, and that lease agreement data is accurately and completely recorded in Facilities Accountability Communications Tool (FACT).

**Response:**

Concur: The Department is in the process of updating and re-validating FFP floor plans and associated leases. This evaluation includes updating associated room numbers, furnishings, occupancy, and leasable square footage. The Department will be redrafting leases to ensure the lease conforms to actual space locations, sizes and types and ensure the correct billing amounts. This process is expected to be complete by July 31, 2013.

**Finding No. 6: Tenant-Broker Services – Customer Surveys**

Contrary to the requirements of State law and Department contracts, the Department did not conduct tenant-broker customer satisfaction surveys. We also found that the tenant broker contracts with the Department were extended, then renewed, despite not having performed such surveys.

**Recommendation:**

We recommend that periodic customer satisfaction surveys be conducted of tenant broker services in accordance with State law and Department contracts.

**Response:**

Concur: The Department has developed a Tenant Broker Evaluation tool that is required for each lease negotiated with the assistance of one of the state's tenant brokers. This form is used to evaluate each broker's performance and the agency's satisfaction with the action. On July 1, 2012, the Department began requiring this form for all broker negotiated leases.

**Finding No. 7: Security Controls – Access Privileges**

The Department did not have written procedures for assigning, reviewing, or terminating system access to the Facilities Accountability Communications Tool (FACT) and to the Department's accounts receivable application.

**Recommendation:**

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

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We recommend that the Department establish written procedures for assigning reviewing, and terminating access to FACT and the accounts receivable application. Additionally, we recommend that the Department limit access privileges to only that needed in the performance of assigned job duties.
**Response:**

FACT:
Concur: The Department has created an on-line application, called App Approver, to facilitate and automate the process of requesting, approving, and reviewing access rights to FACT Lease Management. Procedures for appropriately using App Approver to request, approve, and review access rights for FACT Lease Management will be established in concert with the effort to develop a FACT User Manual. The Department will develop a formal user manual by July 31. 2013.

Accounts Receivable Application (ORACLE):
Concur: We have developed written procedures for assigning, reviewing and terminating access to Oracle. Only Finance and Accounting employees have access to the Oracle and access is reviewed when the Department's Employee Termination form is generated. When a position becomes vacant within the Bureau, the person's access is revoked. New employees are given access by the system administrator at the request of the Revenue Section Supervisor or the Bureau Chief.

**Finding No. 8: Security Controls – Authentication and Audit Logs**

Other security controls protecting Department information technology resources needed improvement.

**Recommendation:**

We recommend that the Department strengthen certain security controls to reduce the risk of Department data and IT resources being compromised.

**Response:**

Concur: The Auditor General reported specific issues in a separate confidential document. In order to prevent compromising the confidentiality of the document, the divisions have not responded directly to the recommendations but will strengthen security controls noted by July 15, 2013.

**Finding No. 9: FACT User Manual**

The Department had not developed a FACT user manual.

**Recommendation:**

We recommend that the Department create and maintain a FACT user manual and establish a periodic review process to ensure that the manual is updated as appropriate to reflect current system operations.

**Response:**

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

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Concur: The Department will develop a formal user manual and review process for the FACT system by July 31, 2013.

## COST ALLOCATIONS

### Finding No. 10: Internal Cost Allocation

The Department did not have written procedures for its internal cost allocation process.

**Recommendation:**

We recommend that the Department:

- Establish written policies and procedures that outline the cost allocation and review process and that include provisions requiring reconciliations of total assessed costs to actual costs.
- Determine the fund balance amount needed to maintain sufficient cash flow within the Administrative Trust Fund and incorporate the amount within the written policies and procedures.

**Response:**

- Non-Concur: While a Cost Methodology Policy was already in place at the time of the audit, we have developed additional procedures and instruction. We do not concur with including provisions requiring reconciliations of total assessed costs to actual costs. Reconciliation is not required in this case because any excess cash in the trust fund is applied to the following year's cost.
- Non-Concur: The projected fund balance requirement at year end is set to $400,000 for the Administrative Trust Fund. This requirement is incorporated within the procedures; however, this amount is subject to change due to situations beyond our control such as reversions or the receipt of additional money from unexpected revenue sources. Our Accrual Spreadsheet reflects the anticipated ending cash balance for the trust fund.

## PRIOR AUDIT FOLLOW-UP

### Finding No. 11: FLAIR Access Controls

Improvements were needed to ensure that access to and security over the Florida Accounting Resource Subsystem (FLAIR) was not compromised.

**Recommendation:**

We recommend that the Department establish written procedures addressing the periodic review of FLAIR access privileges to identify excess and incompatible privileges granted to employees. Additionally, we recommend that the Department perform a routine identification of terminated employees to ensure that FLAIR access privileges are timely removed.

**Response:**

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

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- Non-Concur: The Department already has written procedures for reviewing FLAIR access privileges. Access control privileges are reviewed on a quarterly basis, and access is terminated when the Employee Termination Form is generated. Additionally, FLAIR access privileges cannot always be determined according to employee position descriptions.

- Concur: In January 2013, Finance and Accounting personnel will start reviewing the employee separation report biweekly to ensure employee access is removed in a timely manner.