

**DEPARTMENT OF MANAGEMENT  
SERVICES**

**INFORMATION TECHNOLOGY CONSULTING  
SERVICES STATE TERM CONTRACT,  
PROCUREMENT AND EXPENDITURE PROCESSES,  
AND ADDITIONAL ADMINISTRATIVE MATTERS**

---

**Operational Audit**



## 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. Linda H. South served as the Secretary during the period of our audit.

The audit team leaders were Clint C. Boutwell, CPA, and Leslee Walker, CPA, and the audit was supervised by Stan Mitchell, CPA. Please address inquiries regarding this report to Christi Alexander, CPA, Audit Manager, by e-mail at [christialexander@aud.state.fl.us](mailto:christialexander@aud.state.fl.us) or by telephone at (850) 487-9069.

This report and other reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

## DEPARTMENT OF MANAGEMENT SERVICES

### Information Technology Consulting Services State Term Contract, Procurement and Expenditure Processes, and Additional Administrative Matters

#### SUMMARY

This operational audit of the Department of Management Services (Department) focused on Department controls relevant to the information technology (IT) consulting services State term contract and procurement and expenditure processes. The audit also included a follow-up on selected prior audit findings.

#### DIVISION OF STATE PURCHASING OVERSIGHT

**Finding No. 1:** Department rules did not provide State entities with a central, comprehensive, and authoritative reference on which to model internal procurement procedures.

**Finding No. 2:** The Division's procurement data collection method limited the Division's ability to accurately determine the utilization of State term contracts, perform reliable cost-benefit analyses, measure cost savings, and identify potential opportunities for cost reductions.

#### SOLICITATION OF IT CONSULTING SERVICES STATE TERM CONTRACTS

**Finding No. 3:** The quotation thresholds established within the IT consulting services State term contract did not require State entities to obtain the best value or maximize competition when procuring such services.

**Finding No. 4:** The Division did not always ensure that all required certificates of insurance and conflict of interest statements related to the solicitation of the IT consulting services State term contract were obtained and retained.

#### PROCUREMENT OF IT CONSULTING AND STAFF AUGMENTATION SERVICES

**Finding No. 5:** The Department did not always ensure that background screenings were timely obtained for eligible contractors who performed Department assignments with access to confidential or critical data or facilities.

#### PROCUREMENT AND EXPENDITURE PROCESSES

**Finding No. 6:** The Department did not properly record qualifying fixed capital outlay expenditures in capital asset accounts and records.

#### ADDITIONAL ADMINISTRATIVE MATTERS

**Finding No. 7:** The Department did not restrict Florida Accounting Information Resource Subsystem (FLAIR) access to only those modules necessary and compatible with an employee's current position responsibilities. Additionally, the Department did not perform periodic reviews of FLAIR access privileges to identify and remove excess or incompatible privileges granted to employees.

#### PRIOR AUDIT FINDINGS

**Finding No. 8:** As similarly noted in audit report No. 2009-078, deficiencies in certain operating procedures and standard documents and templates created by the Department may affect the Department's ability to safeguard nonpublic information.

#### 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), and the Southwood Shared Resource Center (SSRC).<sup>1</sup>

## FINDINGS AND RECOMMENDATIONS

### Division of State Purchasing Oversight

To facilitate the procurement of commodities and contractual services by State agencies, the Department is assigned certain powers, duties, and functions including, but not limited to, the establishment of standardized procurement policies, procedures, and practices to be used by State agencies in acquiring commodities and contractual services, and the compilation of certain statistical procurement data that is to be provided by State agencies in the manner prescribed by the Department.<sup>2</sup> Additionally, to provide State agencies with the best value when purchasing commodities and contractual services, the Division of State Purchasing (Division) is tasked with establishing competitively procured State term contracts for commonly used goods and services. The use of such State term contracts is generally mandatory and, if used efficiently, can be an effective tool for utilizing the State's purchasing power to reduce the overall costs for goods and services.

#### Finding No. 1: Rule Revision

Among the statutory purposes of the Department is to provide uniform commodity and contracted service procurement policies, rules, procedures, and forms for use by agencies and eligible users.<sup>3</sup> Further, State law provides the Department with powers and duties to adopt rules necessary to carry out specified purchasing and procurement processes.<sup>4</sup> Although State law instructs the Department to adopt necessary rules, we noted that the Division had not included in Department rules, guidance related to the following procurement processes:

- The preparation of cost-benefit analyses. Such analyses are to include identifying and assessing in writing project needs and requirements, availability of agency employees, budgetary constraints or funds availability, facility equipment availability, current and projected agency workload capabilities, and the ability of any other State entity to perform the services.<sup>5</sup>
- The maintenance of all pertinent information and documentation related to the contract award process. Such information and documentation may include, but not be limited to, a copy of the solicitation; documentation

<sup>1</sup> Sections 20.22, 120.65, 447.205, 760.04, and 282.025, Florida Statutes.

<sup>2</sup> Section 287.042, Florida Statutes.

<sup>3</sup> Section 287.032(2), Florida Statutes.

<sup>4</sup> Section 287.042(12), Florida Statutes.

<sup>5</sup> Section 287.042(3)(d), Florida Statutes.

relating to the solicitation process; opening of bids, proposals, or replies; evaluation and tabulation of bids, proposals, or replies; and determination and notice of award of contract.<sup>6</sup>

- For IT and IT consulting services estimated to exceed the Category Two threshold amount provided in law, procedures that provide for public announcement and qualification, competitive solicitations, contract award, and prohibition against contingent fees.<sup>7</sup>

Absent a central authoritative reference, State agencies must sort through procurement guidance disaggregated in various laws or seek purchasing technical assistance from Division purchasing analysts.

The Department performed the last comprehensive revision of the Department rules providing the general regulations for acquiring commodities and contractual services approximately 4 to 6 years ago. Department staff also indicated that an extensive rewrite of the applicable Department rules was planned to accommodate new requirements affecting State purchasing processes.<sup>8</sup> As most State agencies are required to comply with applicable procurement laws, rules, and regulations, incorporating all such requirements in the Department's planned rewrite of the rules would provide State agency management with a central authoritative reference on which to model internal procedures and ensure Department compliance with the rulemaking provisions pursuant to State law.<sup>9</sup>

---

**Recommendation:** To ensure State agencies are provided with a central authoritative reference, we recommend that the Division revise Department rules to incorporate provisions implementing the requirements of applicable procurement laws and regulations, including those requirements related to cost-benefit analyses, contract file maintenance, and procurements of IT and IT consulting services estimated to exceed the Category Two threshold.

---

*In response to this finding, the Department indicated that it did not read the statute to require that guidance and assistance be exclusively in rule. While we agree that guidance and assistance need not be addressed in rule, the Department is responsible for prescribing the basic procedures to be followed in implementing the statutory procurement requirements delineated in Section 287.042, Florida Statutes. Such directives should be expressed in rule, when rule adoption is specifically required by law. Those directives that need not be addressed in rule should be promulgated and published in a manner which clearly differentiates requirements from guidance, assistance, and other interpretive materials.*

---

## **Finding No. 2: Procurement Data**

---

Pursuant to State law, the Department is to prepare statistical data concerning the method of procurement, terms, usage, and disposition of commodities and contractual services by agencies. To facilitate the Department's preparation of the data, all agencies must furnish the information, no less frequently than annually, in the manner prescribed by the Department.<sup>10</sup> The availability of comprehensive and reliable procurement data would allow the Division to perform objective analyses to identify areas in which the efficiency and economy of State agency purchasing and procurement may be improved. For example, such data and related analyses may facilitate the identification of particular commodities and services the pricing for which may benefit from an expansion in the use of competitive procurement. Specifically, as part of our audit of Division controls over State term contracts, we noted that such data would be beneficial for comparing contractor pricing across agencies for similar services and identifying anomalies such as continuous contract renewals without competition. Additionally, the data and analysis

<sup>6</sup> Section 287.042(3)(c), Florida Statutes.

<sup>7</sup> Section 287.042(4)(b), Florida Statutes.

<sup>8</sup> Chapter 2010-151, Section 46, Laws of Florida.

<sup>9</sup> Section 120.54, Florida Statutes.

<sup>10</sup> Section 287.042(10), Florida Statutes.

may also identify areas where additional State term contracting may be beneficial and instances in which existing State term contracts should be discontinued.

Our audit disclosed that, contrary to State law, the Division no longer prepares statistical data or requires State agencies to submit data. In response to our audit inquiry, Division staff asserted that such data was available in the Florida Accounting Information Resource Subsystem (FLAIR) and the State's MyFloridaMarketPlace (MFMP) e-procurement system. However, as the Division had not planned to prepare statistical data, the related data elements had not been identified, nor had agencies been timely notified of the need to establish account coding or other means to allow the accurate and complete capture of the needed purchasing and procurement data.

Absent the preparation of the statistical data and related analyses, opportunities to improve State purchasing and procurement are limited.

---

---

**Recommendation:** We recommend that the Division prepare the statistical data required by law and conduct appropriate analyses with the objective of identifying for legislative consideration opportunities to improve the economy and efficiency of State agency purchasing and procurement.

---

---

*In response to this finding, the Department indicated that our statement that the Department no longer produces statistical data is incorrect and that the information is available from the State's accounting system (FLAIR) and the State's purchasing system (MFMP), although both of these systems could be improved. The Department further indicated that any such improvements would be incremental over time and subject to agency agreement to provide the information. As noted in the finding, the Department has the statutory authority to prescribe the manner in which the agencies provide the needed information. Because the statistical data could be used by the Department to identify opportunities to improve the economy and efficiency of State agency purchasing and procurement, it is not clear that the best interests of the taxpayers, the Legislature, and State managers will be served by delaying the preparation of the data until the desired Statewide system improvements can be incrementally made.*

<b>Solicitation of the IT Consulting Services State Term Contract</b>
---

The Department estimates that the State and other eligible entities spend approximately \$250 million annually on IT consulting services, thereby establishing a need for the Department to competitively procure State term contracts for services. As part of our audit, we evaluated the Division's processes and internal controls over the solicitation, establishment, and administration of the IT consulting services State term contract that became effective September 15, 2009.<sup>11</sup>

The Division issued a Request for Proposal (RFP) for IT consulting and staff augmentation services, by project area, as described in Table 1. The RFP resulted in a list of 439 contractors eligible for award of work (task order) to perform specific services at rates not to exceed those stated in the contract. In establishing eligibility, the Division determined that these contractors possessed the relevant experience, technical expertise, and financial attributes specified in the RFP.

---

<sup>11</sup> The former IT consulting services State term contract expired on August 31, 2009, after an extension. The current contract is effective through August 2012.

**Table 1**  
**Project Areas**

Project Area	Description
1	Analysis and Design
2	Development and Integration
3	Operational Support
4	Staff Augmentation

Source: IT consulting services State term contract.

As a condition of IT consulting services State term contract use, State agencies are to evaluate the type of services required (scope of work) and identify the matching project area. Agencies can only issue task orders to contractors who had received an award of eligibility in the identified project areas.

**Finding No. 3: Quotation Thresholds**

In establishing State procurement laws, the Legislature recognized that fair and open competition is a basic tenet of public procurement and that competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably.<sup>12</sup> Consistent with this statement of policy, the Legislature established threshold amounts above which procurements of commodities and contractual services must be competitively bid, with expanded solicitation and negotiation criteria as the projected cost increases.<sup>13</sup> Those thresholds are as shown in Table 2:

**Table 2**  
**Threshold Categories and Amounts**

Threshold Category	As of June 30, 2010	Effective July 1, 2010
Category Two	\$25,000	\$35,000
Category Three	\$50,000	\$65,000
Category Four	\$150,000	\$195,000
<b>Category Five</b>	<b>\$250,000</b>	<b>\$325,000</b>

Source: State law.

Our review of the IT consulting services State term contract file disclosed that, through the contract’s provisions, the Division had introduced additional quotation requirements. However, these additional quotation thresholds were significantly higher in comparison to the threshold amounts described in Table 2 above.<sup>14</sup> Specifically, to obtain project-oriented procurements (project areas 1, 2 and 3) and staff augmentation procurements (project area 4) under the current and former IT consulting services State term contracts, State agencies were to adhere to the quotation requirements described in Table 3:

<sup>12</sup> Section 287.001, Florida Statutes.

<sup>13</sup> Section 287.017, Florida Statutes.

<sup>14</sup> Section 287.057(17), Florida Statutes.

Table 3

Quotation Requirements Specified by the IT Consulting Services State Term Contracts

Amounts Specified by		Quotation Requirements
Former Contract	Current Contract	
\$0 - \$24,999	\$0 - \$14,999	Adhere to internal policies and procedures.
\$25,000 - \$2,000,000	\$15,000 - \$2,000,000	Solicit at least three quotes from contractors of agency's choice.
\$2,000,001 - \$5,000,000	\$2,000,001 - \$5,000,000	Select the best response to the statement of work issued to at least ten contractors of agency's choice.
\$5,000,001 - \$10,000,000	\$5,000,001 - \$10,000,000	Select the best proposal submitted upon notification of all contractors within the appropriate project area.
IT Staff Augmentation	IT Staff Augmentation	No quotation requirements for procurements less than \$10,000,000.
Over \$10,000,000	Over \$10,000,000	RFP or Invitation to Negotiate (ITN) to open market not via the State term contract.

Source: IT consulting services State term contracts.

As a result of these high quotation thresholds, the IT consulting services State term contract did not require State entities to obtain the best value when procuring services at the contractor selection stage. As noted above, for project-oriented procurements, the elevated quotation thresholds in the contract allowed procurements for \$2,000,000 or less to be obtained with minimal competition, since agencies simply had to solicit quotes from three eligible contractors of the agency's choosing and then select a contractor. Although project-oriented procurements greater than \$2,000,000, were subjected to more extensive competition among eligible contractors, only those procurements greater than \$5,000,000 were required to be made available to all eligible contractors for submission of quotes. In addition, for staff augmentation services, the contract allowed State entities to simply choose an eligible contractor and pay no more than the maximum rate on the published price list, without exceeding \$10,000,000. Specifically, when procuring staff augmentation services, the contract does not require agencies to obtain quotes from multiple eligible contractors, allow all eligible contractors to submit proposals, or alternatively conduct a reverse auction through MFMP as suggested in response to the Division's survey of the Agency Chief Information Officers Council.

---

**Recommendation:** To effectively utilize the State's purchasing power and reduce overall costs for services provided to State entities, we recommend that the Division consider reducing future quotation thresholds within the IT consulting services State term contract.

---

*In response to this finding, the Department disagreed with our comparison of the statutory categorical thresholds in Table 2, to the quotation requirements of the IT consulting services contract in Table 3, stating this comparison insinuates the request for quote (RFQ) thresholds in the contract should mimic the statutory categorical thresholds in Table 2. The Department also stated that the RFQ requirements in the contract introduce additional competition, and disagreed with our conclusion that as a result of these high quotation thresholds, the IT consulting services State term contract did not require State entities to obtain the best value when procuring services. While it was not our intent to suggest that the thresholds in the contract must mimic the thresholds in Table 2, we did conclude that the contract thresholds should be reduced in order to maximize the opportunities for competitive pricing and obtaining the best value available from the 439 contractors identified by the Department's contract.*

---



---

**Finding No. 4: Procedures and Record Maintenance**


---



---

Comprehensive operating procedures provide a framework for employees to perform designated tasks efficiently and effectively; provide management a mechanism that may be used to monitor operations; and facilitate communication of operational requirements. Our audit disclosed that Division procedures were last updated in 2005, and did not include provisions for some forms of liability coverage, such as Errors and Omissions insurance, and did not provide guidance for documenting evaluator independence. During our audit of the IT consulting services State term contract, we noted the following deficiencies in the Division's operating procedures:

- As part of the procurement process, the Division required that any employee involved in any part of the evaluation or selection of a contractor provide a completed and signed *No Conflict of Interest and Certification of Non-Disclosure* form. By completing and signing the form, the employees taking part in the evaluation and contract award process attest that they are independent of, and have no conflict of interest with respect to, the contractors evaluated and selected. Such attestations provide assurances as to the fairness and objectivity of the procurement and contracting process. We noted that, for one of the three evaluators, the required form could not be located by Division staff.
- For the types and corresponding amounts of insurance coverage required during the term of the contract, Division staff were to obtain certificates of insurance from those contractors deemed eligible. As previously noted, the Division's solicitation for the IT Consulting State term contract resulted in a list of 439 eligible contractors. Our review of 20 contractor files revealed that for 8 contractors, the Division had not obtained certificates of insurance evidencing all required coverage. Subsequent to our audit inquiry, the Division obtained certificates for 7 of the 8 contractors. However, as of August 5, 2010, the Division had not completed the process for removing and disqualifying the other contractor from further participation under the State term contract. Absent documentation that contractors have obtained and maintained appropriate insurance coverage, the Division has no assurance that the State's interests are appropriately protected.

Division staff stated that they were in the process of updating internal written procedures related to soliciting and monitoring State term contracts and that such procedures would be formally adopted upon final review and edit.

---



---

**Recommendation:** We recommend that the Division enhance procedures to ensure that all required certificates of insurance and conflict of interest statements are timely obtained and retained in Division records. We also recommend that Division staff continue efforts to update procedures related to the solicitation and monitoring of State term contracts.

---



---

<b>Procurement of IT Consulting and Staff Augmentation Services</b>
---

Pursuant to law, State agencies are generally required to purchase commodities and contractual services from State term contracts if available.<sup>15</sup> Therefore, the Department utilizes the IT consulting services State term contract for obtaining such services just as other State agencies do. During the period July 1, 2008, through February 28, 2010, the Department approved 56 procurements from the IT consulting services State term contract.

---



---

**Finding No. 5: Background Screenings for IT Contractors**


---



---

The IT consulting services State term contract requires contractors to provide information sufficient to allow appropriate background screenings, if requested, and assigns responsibility for requesting the information to the individual contract users. Pursuant to State law,<sup>16</sup> the Department has designated positions of special trust that are subject to security background checks, including fingerprinting, and has established internal policies to provide further

---

<sup>15</sup> Section 287.056(1), Florida Statutes.

<sup>16</sup> Section 110.1127(1), Florida Statutes.

guidance to Department personnel to assist in obtaining appropriate background screenings. Such policies apply to all Department employees, contractors, volunteers, and interns and require that background information for all applicable parties be processed by the Department's Office of the Inspector General within 10 days, or as soon as practicable, after the award and execution of a contract.<sup>17</sup>

Our audit of 10 procurements, involving 21 contractor staff, disclosed that, contrary to Department policy, background screenings had not been requested and performed for 5 of 19 applicable contractor staff. To promote security of critical Department resources, appropriate background screenings should be timely obtained for contractors performing applicable IT consulting services. Failure to perform appropriate background screenings increases the risk that Department IT resources and data may be subject to unauthorized use, loss, or disclosure.

---

**Recommendation:** We recommend that the Department ensure the timely completion of background screenings in accordance with applicable laws, administrative rules, and other guidelines.

---

### Procurement and Expenditure Processes

Our audit included tests designed to evaluate Department procurement and expenditure processes for contractual services, travel, supplies and commodities, tangible personal property acquisitions, general and administrative operating activities, and fixed capital outlay projects. During the period July 2008 through February 2010, Department expenditures totaled approximately \$729 million.<sup>18</sup>

#### Finding No. 6: Capitalization of Fixed Capital Outlay Project Expenditures

To promote State agency compliance with applicable generally accepted accounting principles, the Department of Financial Services (DFS) has established a policy for State-owned capital assets accounting.<sup>19</sup> The DFS policy establishes capital asset categories and capitalization threshold amounts, describes capital asset reporting, and provides a method for capitalizing building improvements. The policy specifies a capitalization threshold of \$100,000 for building and building improvements and defines building improvements as capital events that materially extend the useful life of a building beyond one year or increase the value of a building. The policy also provides examples of items to be capitalized, including exterior renovations, such as installation or replacement of siding, roofing, masonry, and the installation or upgrade of plumbing and electrical wiring. In addition, the Department had established written procedures for reviewing and recording fixed capital outlay projects in Department capital asset accounts and records.

During the period July 2008 through February 2010, the Department entered into 74 fixed capital outlay related contracts (e.g., construction, construction management, and architectural or engineering contracts) totaling \$14.8 million for the renovation of Department-owned properties. We tested 10 contracts totaling \$5,348,938 to determine whether such procurements were made in accordance with governing laws, rules, and Department policy, and that the transactions were properly recorded in Department accounting records. The projects related to 2 of the 10 contracts had been completed during the period. Our review disclosed that, although the costs for the two completed projects exceeded the capital asset threshold amount, neither of the projects had been capitalized in Department accounting records. Specifically, although both projects were expensed as repairs and maintenance:

- One project was for a complete roof replacement and cost \$2,246,255.

---

<sup>17</sup> Department Administrative Policy, HR 05-107, *Background Investigations & Fingerprinting Requirements*.

<sup>18</sup> The number and amounts of the items tested are described in the **OBJECTIVES, SCOPE, AND METHODOLOGY** section of this report.

<sup>19</sup> DFS, *Capital Asset Policy*.

- The other project was for the replacement of switchgear (e.g., a combination of electrical disconnects, fuses, and circuit breakers used to isolate electrical equipment) and a transformer used in association with an electrical power system. The costs associated with this project totaled \$497,197.

In response to our audit inquiry, Department staff indicated that projects of this nature were routinely expensed and not capitalized. The two projects noted above clearly met the requirements for capitalization under DFS policy and should have been capitalized rather than expensed. The failure to properly capitalize qualifying fixed capital outlay expenditures results in an understatement of building values and related depreciation accounts.

---

**Recommendation:** We recommend that the Department review its fixed capital outlay expenditures and ensure that capital asset records have been updated in a manner consistent with DFS policy.

---

<b>Additional Administrative Matters</b>
--

---

**Finding No. 7: FLAIR Access**

---

Department procedures for requesting, approving, and establishing 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. Additionally, the Department did not monitor FLAIR access privileges on a routine basis to ensure employee access remained appropriate.

As noted below, our audit procedures disclosed that some employees had been assigned potentially incompatible update capabilities that were not necessary to the performance of specific job duties and responsibilities:

- One of 19 employees with cash receipt and disbursement update capabilities was no longer employed in an accounting position, but rather in an IT applications management position.
- Five of 9 employees had update capabilities to both fixed assets accounting and fixed assets custodial functions that were not needed.
- Ten of 21 employees had inappropriate update capabilities to both the disbursement and client vendor functions.
- Five of 11 employees had inappropriate update capabilities to both the disbursement and employee vendor file functions.

Subsequent to our audit inquiry, the Department made the appropriate adjustments to these employees' FLAIR access privileges. Access in excess of that needed to perform an individual's assigned duties, together with insufficient monitoring of such access, increases the risk of loss and unauthorized disclosure, modification, or destruction of critical data and resources.

---

**Recommendation:** We recommend that the Department enhance procedures to ensure that access to FLAIR is restricted to only those modules that are necessary to and compatible with an employee's current position responsibilities. Additionally, we recommend that the Department perform periodic reviews of FLAIR access privileges to identify and remove any excess or incompatible privileges.

---

<b>PRIOR AUDIT FOLLOW-UP</b>
------------------------------

Our review of actions taken by the Department to address the findings included in audit report Nos. 2009-052 and 2009-078 disclosed that the Department generally took appropriate actions for the applicable findings, except as noted in finding No. 8 below.

---

**Finding No. 8: Security Clauses**

---

As similarly disclosed in audit report No. 2009-078, deficiencies in certain operating procedures and documents may affect the Department's ability to safeguard nonpublic information. Specifically, standard documents and templates created by the Department and used for drafting State Purchasing Agreements and Alternate Contract Source documents did not include clear and comprehensive security clauses prohibiting the disclosure of nonpublic information by vendors. In response to audit report No. 2009-078, Department management indicated that such language would be strengthened through revisions to the applicable Department rules and standard procurement documents by January 1, 2010. However, as noted in finding No. 1, the rules revision had not occurred as of July 2010. Additionally, our review of applicable State Purchasing Agreements and Alternate Contract Source documents did not reflect the addition of clear and comprehensive security clauses prohibiting the disclosure of nonpublic information by vendors.

---

**Recommendation:** We again recommend that the Department enhance its procedures to ensure that clear and unambiguous security clauses prohibiting disclosure of nonpublic information by vendors is included in applicable Department standard documents and templates designed for procuring goods and services.

---

---

**OBJECTIVES, SCOPE, AND METHODOLOGY**

---

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

We conducted this operational audit from December 2009 to August 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the procurement and utilization of the State term contract for IT consulting services, Department procurement and expenditure processes, and selected administrative functions. The overall objectives of the audit were:

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

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in report Nos. 2009-052 and 2009-078.

In conducting our audit, we:

- Obtained an understanding of internal controls and observed, documented, and evaluated the effectiveness of key processes and procedures related to the procurement and utilization of the State term contract for IT consulting services.
- Reviewed Chapter 287, Florida Statutes, applicable Department rules, Department policies and procedures, and other laws, rules, and guidelines to obtain an understanding of compliance requirements relevant to procurement of commodities and contractual services.
- Reviewed State term contract No. 973-561-010-1 effective September 15, 2009, and its predecessor State term contract No. 973-561-06-1, to determine whether the contracts contained appropriate contract provisions and language.
- Performed inquiries of applicable personnel and reviewed available documentation to determine whether Division staff had access to reliable procurement data necessary to effectively monitor State agency use of the IT consulting services State term contract.
- Reviewed documentation submitted by 20 prospective vendors in response to solicitation No. 2-973-561-K to determine whether the Division properly screened each vendor to ensure the vendors met the solicitation requirements before being approved as contractors under the contract.
- Reviewed documentation related to 10 of 56 procurements (including those for consulting services and staff augmentation) totaling \$1,674,242 made by the Department under the IT consulting services State term contract during the period July 2008 to February 2010, to determine whether the Department complied with applicable laws, rules, guidelines, and Department policies and procedures.
- Reviewed Department files to determine whether the Department had obtained appropriate background screenings for 21 IT contractors providing services under the IT consulting services State term contract.
- Reviewed the IT consulting services (including staff augmentation) contracts for 10 states and compared to Florida's IT consulting services State term contract.
- Tested 200 expenditure transactions (37 for contractual services, 23 for supplies and commodities, 13 for travel, 10 for acquisitions of tangible personal property, 24 for fixed capital outlay, and 93 for general and administrative operating costs) totaling \$9.1 million and 40 procurement transactions (10 for contractual services, 15 related to supplies and commodities, 5 tangible personal property acquisitions, and 10 for fixed capital outlay) totaling \$7.6 million during the period July 2008 through February 2010 to determine whether the Department:
  - Procured and paid for goods and services in accordance with governing laws, rules, and Department policy.
  - Ensured that goods and services served an authorized purpose of the State and were procured at a reasonable and necessary cost.
  - Ensured that expenditure transactions recorded in FLAIR were accurate, authorized, timely recorded, correctly coded (i.e., appropriate funding source, fiscal period, object code, etc.), and supported by adequate documentation.
- Performed analytical procedures of FLAIR expenditure data to identify:
  - Expenditure types, number of transactions, and total dollar amount.
  - Variances in overall expenditures.
  - Questionable vendors and employee vendors.
  - Travel advances related to selected travel expenditures.
- Performed analytical procedures of procurement data to identify:

- Large dollar purchases of goods or services.
  - Nontraditional cost and compensation methods.
  - Goods or services not normally associated with the Department's authorized purpose and operations.
  - Goods or services that were already provided or performed by another unit of government (e.g., legal services).
- Performed a review of FLAIR access privileges granted to Department staff to identify any potentially incompatible update capabilities or access that was not necessary to the performance of the employee's assigned job duties.
- Evaluated actions taken by the Department and related entities to correct the deficiencies disclosed in audit report Nos. 2009-052 and 2009-078. Specifically:
- Reviewed the Department Office of Inspector General's 6- and 12-month responses regarding the status of corrective actions for each finding in audit report Nos. 2009-052 and 2009-078, as available, to determine the current status of each finding.
  - Reviewed rules and guidelines related to Department and applicable related entity responses regarding the status of corrective actions for findings in audit report No. 2009-078.
  - Reviewed and evaluated, as applicable, Department and applicable related entity documentation and procedures to determine compliance and sufficiency with applicable laws relevant to the safeguarding of nonpublic information; communication of policies related to nonpublic information; designation of positions of special trust and required background screenings; and change management procedures for significant IT systems.
  - Reviewed standard purchasing templates promulgated by the Department for use by State agencies and governmental entities to determine whether clear, unambiguous language preventing the dissemination of nonpublic information by contractors or subcontractors associated with the agreement had been incorporated.
  - Examined Department documentation and policies and procedures to determine whether Department and applicable related entity cash collection and processing procedures were adequate.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe those matters requiring corrective actions.

**AUTHORITY**

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



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSE**

In a response letter dated December 23, 2010, the Secretary of the Department provided responses to our audit findings and recommendations. The Department's response is included as EXHIBIT A.

EXHIBIT A  
MANAGEMENT'S RESPONSE



Governor Charlie Crist

Office of the Secretary  
4050 Esplanade Way  
Tallahassee, Florida 32399-0950  
Tel: 850.488.2786  
Fax: 850.922.6149  
www.dms.MyFlorida.com

Secretary Linda H. South

December 23, 2010

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

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, this is our response to your report, Department of Management Services, Information Technology Consulting Services State Term Contract, Procurement and Expenditure Processes, and Additional Administrative Matters. Our response corresponds with the order of the preliminary and tentative findings and recommendations contained in the draft report.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'LH South', written in a cursive style.

Linda H. South  
Secretary

Attachment

cc: Debra Forbess, Director of Administration  
Ellen Potts, Interim Director of State Purchasing  
Anthony Garcia, Director of Departmental Purchasing  
Mitchell Clark, Chief of Bureau of Financial Management Services

We serve those who serve Florida.

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

Mr. David W. Martin, CPA  
December 23, 2010  
Page 1

**Department of Management Services' Response  
To the Auditor General's Preliminary and Tentative Report  
Department of Management Services, Information Technology  
Consulting Services State Term Contract, Procurement and Expenditure  
Processes, and Additional Administrative Matters**

**DIVISION OF STATE PURCHASING OVERSIGHT**

**Finding No. 1:**

**Department rules did not provide State entities with a central, comprehensive, and authoritative reference on which to model internal procurement procedures.**

**Recommendation No. 1:**

To ensure State agencies are provided with a central authoritative reference, we recommend that the Division revise Department rules to incorporate provisions implementing the requirements of applicable procurement laws and regulations, including those requirements related to cost-benefit analyses, contract file maintenance, and procurements of IT and IT consulting services estimated to exceed the Category Two threshold.

**Response No. 1:**

**Non-Concur:** We do not read the statute to require that our guidance and assistance be exclusively in rule. DMS, Division of State Purchasing, gives assistance, guidance and support to state agencies in their purchasing. We do this by providing rules, forms, model documents, statewide contracts, and training. All of these resources are available on the DMS website. We also provide assistance and direction through our staff and contract administrators. Although the core requirements of state purchasing are contained in rule and statute, we do not interpret the statute to require that all policies, procedures and practices be in rule. Additionally, DMS has no power to enforce agency compliance with purchasing rules or procedures.

The statute says that DMS is to "establish a system of coordinated uniform procurement policies, procedures, and practices to be used by agencies in acquiring commodities and contractual services." s. 287.042(3), F.S. It does not state that all of these items should be contained in rule. We do not believe that putting all of this guidance and assistance in rule is the best means of accomplishing our statutory role. Many of the procedures and practices are fact or purchase specific and guidance for these is best done with a more flexible model. Although there is always room for improvement, we believe that we are meeting the statutory mandate.

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

Mr. David W. Martin, CPA  
December 23, 2010  
Page 2

As to the three items listed in the recommendation:

Cost/benefit analyses - The classes entitled "Cost Control" and "Defining Requirements" describe best practices for agencies relating to cost benefit analyses. We believe that this training, in conjunction with the current statutory requirement contained in s. 287.0571, F. S., gives more than sufficient guidance on this important issue.

Contract management file – The class entitled "Post Award Process" and the post award portion of the "Public Purchasing in Florida" class offered by the Division of State Purchasing describes the Contract Management file and best practices relating to the file. We believe that this provides more than sufficient guidance.

Information Technology purchases above Category II—The Division of State Purchasing has provided guidance in this area by creating the IT hardware, software, and consulting services contracts. These contracts are the purchasing policies and procedures for IT, as the contracts themselves provide guidance to the agencies with regard to the purchase of IT hardware, software, and IT consulting services. We consulted with and sought feedback from the CIOs and the AEIT in developing these contracts. It should also be noted that more recent legislative enactments, specifically in Chapter 282, F.S., reinforce this shared responsibility.

**Finding No. 2:**

**The Division's procurement data collection method limited the Division's ability to accurately determine the utilization of State term contracts, perform reliable cost-benefit analyses, measure cost savings, and identify potential opportunities for cost reductions.**

**Recommendation No. 2:**

We recommend that the Division prepare the statistical data required by law and conduct appropriate analyses with the objective of identifying for legislative consideration opportunities to improve the economy and efficiency of State agency purchasing and procurement.

**Response No. 2:**

**Non-Concur:** The auditor general's statement that contrary to state law the division no longer produces statistical data is incorrect. The department currently produces adhoc reports and statistical data as requested. We do not agree that creating additional reporting, separate from and additional to the systems currently in place, is a more efficient way to obtain better data for analysis.

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

Mr. David W. Martin, CPA  
December 23, 2010  
Page 3

The collection of state agency purchasing information is currently done with the FLAIR and MyFloridaMarketPlace (MFMP) systems. Though both of these systems can be improved, we believe the best investment of state dollars is in refinement of these existing systems and in the inclusion of additional data by the agencies as the systems are improved. These changes are incremental in nature and are also dependent on the agreement of the agencies using them.

We use these systems every day to determine contract utilization, perform cost benefit analyses, measure cost savings, and identify potential cost reductions. We certainly agree that the systems can be improved and more data collected and that the data can be better segregated for analysis; we are committed to doing that.

For example, the method of procurement field in MFMP is required, whereas the contract number field is optional. Therefore, while it is currently possible to analyze spend based on state term contract sales, it may be difficult to determine to which contract the sales should be attributed. We identified this and requested a change in MFMP to make the contract number mandatory. These changes are approved and prioritized by the Change Review Board (CRB), which is comprised of representatives from different agencies who vote on and prioritize changes to the MFMP system. The CRB met December 17, 2010, to prioritize changes to be included with the 3.0 Buyer Upgrade scheduled to take effect in September 2011. The Division requested the inclusion of the change in this upgrade. However, the prioritization is ultimately up to the CRB.

**SOLICITATION OF IT CONSULTING SERVICES STATE TERM CONTRACTS**

**Finding No. 3:**

**The quotation thresholds established within the IT consulting services State term contract did not require State entities to obtain the best value or maximize competition when procuring such services.**

**Recommendation No. 3:**

To effectively utilize the State's purchasing power and reduce overall costs for services provided to State entities, we recommend that the Division consider reducing the future quotation thresholds within the IT consulting services State term contract.

**Response No. 3:**

**Concur:** We will revisit the quotation thresholds in a future contract, if we determine that doing so will increase the benefit of state term IT contracts.

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

Mr. David W. Martin, CPA  
December 23, 2010  
Page 4

While it may be beneficial to adjust the dollar levels at which RFQ's are required under the IT state term contract, we disagree with the comparison of the statutory categorical thresholds listed in Table 2 to the quotation requirements for the IT Consulting Services state term contract in Table 3. Table 2 lists the threshold categories for competitive purchases. For instance, purchases for commodities and contractual services in excess of Category 2 must be competitively established<sup>1</sup>. By including Table 2, the report insinuates that the quotation requirements should mimic the category thresholds. However, there is no logical basis for the quotation requirements in the state term contract to mirror those of the category thresholds. In fact, it may be confusing and duplicative to require the RFQ process to mirror the statutory bid provisions. The IT Consulting Services state term contract complied with the category thresholds in statute, in that the contract itself was competitively procured.

Additionally, the statute does not mandate the use of RFQ's with state term contracts. Section 287.056(3), F.S. states, in pertinent part, that "agencies and eligible users may use a request for quote to obtain written pricing or services information from a state term contract vendor for commodities or contractual services available on state term contract" (emphasis added)<sup>2</sup>. The statute also provides that RFQs under a state term contract are not the same as and are not to be treated as a competitive solicitation. Therefore, the IT Consulting Services contract actually exceeds the requirements in statute, by requiring agencies to seek quotes based on the amount of their purchases. It is also important to note that, as illustrated in Table 3, the Division lowered the quotation requirements listed in the previous contract for some threshold amounts for the current contract.

The more stringent RFQ requirements in the IT Consulting Services contract are designed to provide additional competition, which they do. We disagree with the statement that "as a result of these high quotation thresholds, the IT Consulting services State term contract did not require State entities to obtain the best value when procuring services at the contractor selection stage." However, the Division exercised its judgment in setting the thresholds.

**Finding No. 4:**

**The Division did not always ensure that all required certificates of insurance and conflict of interest statements related to the solicitation of the IT consulting services State term contract were obtained and retained.**

**Recommendation No. 4:**

We recommend that the Division enhance procedures to ensure that all required certificates of insurance and conflict of interest statements are timely obtained and

---

<sup>1</sup> See Section 287.057(1), Florida Statutes (F.S.).

<sup>2</sup> See Section 287.056(3), F.S.

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

Mr. David W. Martin, CPA  
December 23, 2010  
Page 5

retained in Division records. We also recommend that Division staff continue efforts to update procedures related to the solicitation and monitoring of State term contracts.

**Response No. 4:**

**Concur:** The Division has internal policies and procedures in place and is working to refine them. We have appointed a workgroup charged with ensuring that the policies and procedures are updated in a timely fashion. Additionally, we are working to enhance and strengthen those procedures with a procurement process management system which will be integrated into the sourcing tool and which will provide an automated base for the implementation of standard procedures and forms within the division. This system is in development and is targeted for implementation in March of 2011. Specifically, the system will allow for the setting and monitoring of tasks for the entire procurement process, from market research through contract management. The tool will also include a common library of forms and checklists to facilitate completion of procedures and retention of records. We believe that this system will enhance our internal procedures and address the audit concerns.

**PROCUREMENT OF IT CONSULTING AND STAFF AUGMENTATION SERVICES**

**Finding No. 5:**

**The Department did not always ensure that background screenings were timely obtained for eligible contractors who performed Department assignments with access to confidential or critical data or facilities.**

**Recommendation No. 5:**

We recommend that the Department ensure the timely completion of background screenings in accordance with applicable laws, administrative rules, and other guidelines.

**Response No. 5:**

**Concur:** To ensure that background checks are conducted in a timely fashion Departmental Purchasing staff will meet with division personnel who generate purchase orders for such services to reinforce the importance of this requirement. Further, as to written agreements, the Department will amend its written agreement routing form to address this concern.

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

Mr. David W. Martin, CPA  
December 23, 2010  
Page 6

**PROCUREMENT AND EXPENDITURE PROCESSES**

**Finding No. 6:**

**The Department did not properly record qualifying fixed capital outlay expenditures in capital asset accounts and records.**

**Recommendation No. 6:**

We recommend that the Department review its fixed capital outlay expenditures and ensure that capital asset records have been updated in a manner consistent with DFS policy.

**Response No. 6:**

**Concur:** The Bureau of Financial Management Services will work with the Division of Real Estate Development and Management to ensure all future fixed capital outlay expenditures in the amount of \$100,000 or more are recorded in the appropriate capital asset account per DFS policy. All tangible property discovered during the audit period will be recorded by January 31, 2011 to the property records.

**ADDITIONAL ADMINISTRATIVE MATTERS**

**Finding No. 7:**

**The Department did not restrict Florida Accounting Information Resource Subsystem (FLAIR) access to only those modules necessary and compatible with an employee's current position responsibilities. Additionally, the Department did not perform periodic reviews of FLAIR access privileges to identify and remove excess or incompatible privileges granted to employees.**

**Recommendation No. 7:**

We recommend that the Department enhance procedures to ensure that access to FLAIR is restricted to only those modules that are necessary to and compatible with an employee's current position responsibilities. Additionally, we recommend that the Department perform periodic reviews of FLAIR access privileges to identify and remove any excess or incompatible privileges.

**Response No. 7:**

**Concur:** The policies and procedures will be updated to include that the access control report will be reviewed quarterly to ensure that access to FLAIR is restricted to only the modules that are necessary to and compatible with the employee's current

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

Mr. David W. Martin, CPA  
December 23, 2010  
Page 7

responsibilities. In addition, user access will be reviewed at the time a supervisor or other management personnel request a change to a current user's access.

**PRIOR AUDIT FINDINGS**

**Finding No. 8:**

**As similarly noted in audit report No. 2009-078, deficiencies in certain operating procedures and standard documents and templates created by the Department may affect the Department's ability to safeguard nonpublic information.**

**Recommendation No. 8:**

We again recommend that the Department enhance its procedures to ensure that clear and unambiguous security clauses prohibiting disclosure of nonpublic information by vendors is included in applicable Department standard documents and templates designed for procuring goods and services.

**Response No. 8:**

**Concur:** As stated in our response to the Auditor General's prior audit report, State Purchasing Agreement and Alternate Contract Source vendors are required to comply with all applicable state laws, including those prohibiting disclosure of "nonpublic" information. There are rules in place to ensure that confidential information obtained by a vendor is protected. However, we agree that the two forms, the State Purchasing Agreement and Alternate Contract Source documents, do not specifically contain security clauses prohibiting the disclosure of nonpublic information by vendors. Therefore, as of December 17, 2010, the Division of State Purchasing is actively engaged in the rulemaking process to amend these documents (PUR 7721 and PUR 7722) to include a requirement that confidential information be protected.