

DEPARTMENT OF HEALTH

**CHILDREN'S MEDICAL SERVICES AND
SELECTED ADMINISTRATIVE MATTERS**

Operational Audit



STATE SURGEON GENERAL AND STATE HEALTH OFFICER OF THE DEPARTMENT OF HEALTH

The Department of Health is created by Section 20.43, Florida Statutes. The head of the Department is the State Surgeon General and State Health Officer who is appointed by the Governor subject to confirmation by the Senate. Dr. Ana M. Viamonte Ros served as the State Surgeon General and State Health Officer during the period of our audit.

The audit team leader was Gail Wright and the audit was supervised by Karen Van Amburg, CPA. Please address inquiries regarding this report to Jane Flowers, CPA, Audit Manager, by e-mail at janeflowers@aud.state.fl.us or by telephone at (850) 487-9136.

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DEPARTMENT OF HEALTH

Children's Medical Services and Selected Administrative Matters

SUMMARY

This operational audit of the Department of Health (Department) focused on selected administrative matters, including contract management, with a primary focus on Children's Medical Services (CMS) Program contracting. Our audit disclosed the following matters requiring corrective actions:

CHILDREN'S MEDICAL SERVICES CONTRACTS

Finding No. 1: The Department's procedures for noncompetitive contract procurement required the use of three forms to document contracting decisions: a Memorandum of Negotiation, Documentation for Noncompetitive Procurement, and a Cost/Price Analysis. While we noted that completed forms were generally present in the contract files, the explanations and information contained therein were not reflective of concerted staff efforts to procure the necessary services at an appropriate price.

Finding No. 2: CMS Program area offices did not always follow Department policy when using Memoranda of Agreement (MOA) or Memoranda of Understanding (MOU) in lieu of standard contract documents.

FLAIR CONTRACT SUBSYSTEM

Finding No. 3: The Department did not always correctly enter the contract procurement method code into the Florida Accounting Information Resource Subsystem (FLAIR) Contract Subsystem. In addition, some procurement method codes maintained by the Department in the FLAIR Title File were incorrect.

FINDINGS AND RECOMMENDATIONS

Children's Medical Services Contracts

The Department administers the Children's Medical Services (CMS) Program for children with special health care needs and their families.¹ For the 2010-11 fiscal year, the Legislature appropriated approximately \$338 million for the CMS Program, which represents approximately 12 percent of total Department appropriations. A component of the CMS Program is the CMS Network, a family-centered, comprehensive, and coordinated Statewide managed system of care that is to link community-based health care services with multi-disciplinary, regional, and tertiary pediatric specialty care, and is to include prevention and intervention services, primary care, medical and therapeutic specialty care, and long-term care. As shown in **EXHIBIT A**, the CMS Network is organized with a headquarters office in Tallahassee and eight regions with 22 area offices throughout the State. Legislative appropriations for the CMS Network totaled \$204.7 million in State and Federal funding during the 2010-11 fiscal year² and, as of March 2011, the Department reported Network enrollment of 80,881 clients.

¹ Section 391.021(2), Florida Statutes, defines children with special health care needs as those children younger than 21 years of age who have chronic physical, developmental, behavioral, or emotional conditions and who also require health care and related services of a type or amount beyond that which is generally required by children.

² Federal funding sources included Special Education - Grants to States (Catalog of Federal Domestic Assistance [CFDA] No. 84.027), Special Education - Preschool Grants (CFDA No. 84.173), Special Education - Grants for Infants and Families (CFDA No. 84.181), Special Education - Grants for Infants and Families, Recovery Act (CFDA No. 84.393), Universal Newborn Hearing Screening (CFDA No. 93.251), Temporary Assistance for Needy Families (CFDA No. 93.558), Children's Health Insurance Program (CFDA No. 93.767), Medical Assistance Program (CFDA No. 93.778), and Maternal and Child Health Services Block Grant to the States (CFDA No. 93.994).

The CMS Program regions were created in 2000 to create efficiencies for certain administrative functions, including purchasing, personnel, information technology, and member services. Area offices within each region perform functions such as clinical eligibility determination, care coordination, service authorization, claims payment, provider recruitment, and family assistance with enrollment and retention. Each region is staffed with a physician serving as Regional Medical Director, a registered nurse serving as Regional Nursing Director, and a Regional Program Administrator. Area offices are similarly staffed with physicians and nurses in management positions. The Department uses various means of employing the regional and area office management, including full-time and part-time State employment, and contracts with universities and other medical providers. **EXHIBIT B** depicts the CMS Network regional and area office management structure as of April 2010. **EXHIBIT C** lists goods and services provided by the CMS Network through contracts, in effect during the period July 2008 through February 2010, with various entities, including the University of Florida (UF), and the amounts of the associated Network contract awards, which totaled approximately \$968 million. As shown in **EXHIBIT D**, during the period July 2008 through February 2010, the CMS Program had 61 contracts totaling \$240 million with UF. Of those contracts, 23 were new contracts that had replaced expired contracts and 13 were contract renewals (extended contracts). The contracts with UF represented approximately 25 percent of the total of all Network contract awards in effect during the period July 2008 through February 2010.

Previously, we have reported deficiencies in the Department's CMS Network contracts with UF relative to compliance with Federal award requirements, most recently in report No. 2010-165 and report No. 2011-167. Findings from report No. 2011-167 are included in **EXHIBIT E**. In these findings, we noted that, with respect to contracts with UF, the Department did not fully demonstrate the appropriateness of the costs charged to Federal programs, and Department procedures did not always provide for a complete reconciliation of payments made to costs incurred by UF or provide for the return of excess funds to the Department.

Finding No. 1: Contract Documentation

Florida law requires State agencies to use a competitive solicitation process for procurement of contractual services in excess of \$35,000.³ The law provides exemptions to this requirement for various services, such as health services and services provided by governmental agencies, including State universities and colleges, as well as services provided by certain independent, nonprofit colleges and universities.⁴ The Department's procedures for noncompetitive contract procurement required the use of three forms to document contracting decisions: a Memorandum of Negotiation, Documentation for Noncompetitive Procurement, and a Cost/Price Analysis. While we noted that completed forms were generally present in the contract files, the explanations and information contained therein were not reflective of concerted staff efforts to procure the necessary services at an appropriate price. Specifically:

- The Memorandum of Negotiation form was to be used to document Department and provider staff meetings and discussions regarding contract terms and conditions and outcome measures. The form contained spaces to record information related to the negotiation, including the date and time of the meeting; the names, positions, and signatures of the parties representing the Department and the contractor; and a description of the contract services to be provided. The form also contained the sentences: "Contract terms and conditions were reviewed," and "Outcome measures were reviewed," with boxes to be checked by the Department employee who completed the form. The completed forms we reviewed did not document specifically what was discussed during the negotiation, or otherwise contain sufficient detail to demonstrate the degree to which the Department had attempted to negotiate terms more advantageous to the State, including lower prices and greater outcomes.

³ Section 287.057(1), Florida Statutes.

⁴ Section 287.057(3)(f), Florida Statutes, and Section 287.057(21), Florida Statutes.

- The Documentation for Noncompetitive Procurement form was to be used to explain, for each procurement, why competitive purchasing was not practical or in the best interest of the Department, why the selection of the provider was the most advantageous for the State, and, if the provider was the only one available, how that was determined. The explanations on the forms were nearly identical for most contracts and, in some cases, were not relevant to the specific contract or did not adequately describe why the selection of the provider was the most advantageous for the State and how that was determined. For example, each of four contracts we reviewed between the Department and UF were for widely varied services (one contract was for genetic testing and counseling; one was for pulmonary, hematology, oncology, and rheumatology services; one contract was for treatment for spina bifida, neurological disorders, and craniofacial disorders; and one contract was for services for Title XXI Florida KidCare). However, the form for each of these contracts contained the same generalized explanations. Specifically:
 - “Explain why formal competitive purchasing practices (RFP/ITB/ITT) were not practical and/or in the best interest of the Department. State the situation necessitating the use of noncompetitive procedures: *The services that are required can only be provided by health care professionals who meet certain credentialing requirements and have access to facilities and support that meet quality of care criteria and are able to serve children with complex medical problems. The nature of the services is such that there is no or few competitors for the service(s). Services are also selected based on access and quality of care standards that are to be used for the non-Medicaid components of the Florida KidCare Program. The CMS Network is a non-Medicaid component of this program and therefore selects providers based on their standards.*”
 - “Explain the reasons for selection and why this selection represents the most advantageous decision for the state in terms of service and price. If this is the only provider willing or able to provide these services, state how this was determined: *Services are selected based on provider and facility standards which include national standards. CMS is mandated by statute to pay Medicaid rates, so price is not an issue. However, the qualifications of the facility or provider is an issue for the services that are required.*”
- The Cost/Price Analysis form was to be used to document how a contract price was determined, the methodology used in the determination, and a comparison to previous prices. Correctly completing the form in sufficient detail would help demonstrate how the Department determined the reasonableness of the contract price. However, in most cases, the information on the form was not in sufficient detail to describe, or did not reference documents that demonstrated how the price was determined and, for some contracts, the information on the form was incorrect. For example:
 - A contract renewal totaling \$9.2 million for specified contracted positions procured staff based on total salaries, benefits, and workers compensation, plus a 5 percent administrative fee. The contract included a detailed list of positions and related costs. However, while documentation was available to support the contract amount, no procedures were performed at the time of renewal to evaluate the reasonableness of the amounts. Such procedures might include comparing the position salaries to salaries for similar positions within the Department or at other State agencies and universities.
 - A contract was renewed for \$18.7 million to provide for the operation of an area Early Steps Program. According to Department staff, the amount of the contract was based on available program funding. Performing an assessment of the comparative market for other possible providers and related costs or analyzing the cost of providing the services in-house would have helped substantiate the reasonableness of the contract amount and the level of funding needed.

Recommendation: The Department should improve its contracting procurement process to ensure that contracting decisions are based on concerted efforts to procure services at the appropriate price. The Department should ensure compliance with the procedures with more thorough documentation requirements and supervisory review of completed forms.

Finding No. 2: Memoranda of Agreement

The Department developed authoritative policy guidance, dated March 2008, regarding the use of Memoranda of Agreement (MOA), Memoranda of Understanding (MOU), and similar agreements in lieu of formal contract documents. The policy authorizes the use of MOAs and MOUs on a limited basis to formalize contractual relationships with outside vendors, but instructs that these types of instruments may only be used when the agreement is with another governmental entity or with a nongovernmental entity when the agreement does not involve Department expenditure or compensation to the entity. In addition, the policy recognizes that many of the protections and safeguards found within the standard contract are not present in a MOA or MOU so, to ensure that the agreements are correct, legal, and meet the needs of the Department, the policy requires that all MOAs and MOUs be reviewed by Department contract administration, budget, and legal staff prior to execution. The policy also requires that, after execution, the MOAs and MOUs be entered into the FLAIR Contract and Grants Subsystem for tracking and reporting.

To determine the completeness of the FLAIR information, we sent surveys to the 21 CMS Program area offices through the CMS Program headquarters office in Tallahassee. Ten of the 21 area offices did not respond to our request for information. The 11 area offices that responded to our survey reported 25 MOAs. We also identified from a Department Inspector General's report⁵ an additional MOA that was not included in an area office's response to our request. Examples of types of services procured with the MOAs included nutrition services, care coordination, staffing, and behavior analysis. Contrary to Department policy, of the 26 MOAs identified:

- None were entered into FLAIR.
- None were reviewed by Department budget staff.
- Twenty-four were not reviewed by Department contract administration staff.
- Five of the 13 MOAs that were with nongovernmental entities involved expenditures or compensation to the entity.

The use of MOAs and MOUs in lieu of formal contracts makes the agreements not subject to protections and safeguards established within standard contract documents, such as provisions requiring indemnification and the safeguarding of information and provisions authorizing monitoring. The lack of adequate procedures to properly identify all MOAs and MOUs in use within the Department and ensure adequate review and accounting for those agreements, increases the likelihood that the agreements will not meet necessary legal requirements and will not protect the Department from financial risk. Further, the use of MOAs and MOUs when compensation will be required may result in the failure to follow law and policy governing procurement.

Recommendation: The Department should ensure that area offices comply with Department policy regarding the limited use of MOAs and MOUs. Actions should include performing a comprehensive assessment to identify all MOAs and MOUs in existence within the Department, reviewing existing MOAs and MOUs to determine whether the Department would be better served by converting the agreements to formal contracts, and implementing procedures to ensure that MOAs and MOUs are subject to review and approval by budget and contract administration staff and are timely entered into FLAIR for tracking and reporting.

⁵ Report No. AC-09-004, *Division of Children's Medical Services Controls Over Funds and Expenditures*, dated June 3, 2010.

FLAIR Contract Subsystem

Finding No. 3: FLAIR Contracts and Grants Information System Data

The Department utilizes the FLAIR Contract Subsystem to track information related to its contracts. The FLAIR Contract Subsystem contains information such as the contractor's name and address, contract effective dates, contract amount, and contract procurement method. The accurate recording of the procurement method is important as it allows the use of the FLAIR Contract Subsystem by Department management, the Legislature, and others to track and monitor the extent to which competitive procurement methods are being employed by the Department. Our audit disclosed that the Subsystem information related to procurement method may contain a significant amount of error and some ambiguity in code definitions. Specifically:

- Our test of the documentation for 40 contracts totaling \$148,144,918 that were procured during the period July 2008 through February 2010 disclosed that, for 4 contracts, the procurement method codes recorded in the FLAIR Contract Subsystem did not reflect the actual contract procurement method, as follows:
 - For 2 contracts, the FLAIR Contract Subsystem indicated that the procurement method was Invitation to Bid; however, the actual procurement method was Invitation to Bid Renewal.
 - For 1 contract, the FLAIR Contract Subsystem indicated that the procurement method was Request for Proposal; however, the because of the type of health services being procured, the contract procurement was exempt from competitive solicitation and was procured using noncompetitive means.
 - For 1 contract, the FLAIR Contract Subsystem indicated that the procurement method was Request for Proposal Renewal; however, the actual procurement method was Request for Proposal.
- The Department's FLAIR Title File contains information related to definitions of codes utilized in FLAIR, including the FLAIR Contract Subsystem. The FLAIR Title File is available to those responsible for recording the procurement code information. Also, available to these staff was a Department policy addressing contracting. As shown in Table 1, the contract procurement method codes and the definition of those codes, as maintained by the Department in the FLAIR Title File, were not consistent with the procurement method codes and related definitions the Department had established by policy for use in the FLAIR Contract Subsystem. The existence of the two sets of definitions could lead to the inconsistent and incorrect recording of the procurement codes.

Table 1
Contract Procurement Method Codes

Procurement Method Code	FLAIR Title File Description	FLAIR Contract Subsystem Codes per Department Policy Description
5	DMS State Contract	ITN ^a
6	Another Government Agency Contract	Purchase from DMS Contractual Services State Contract
7	Small Purchase	Purchase from Another Governmental Agency Contract
8	Alternate Competitive (for future use)	Small Purchase
D	No Response to ITB ^b /RFP ^c	Renewal to ITB ^b
E	Negotiation	No Response ITB ^b /RFP ^c /ITN ^a

^a Invitation to Negotiate.

^b Invitation to Bid.

^c Request for Proposal.

- We compared the information contained in FLAIR to contract documentation maintained for 58 CMS Program contracts between the Department and UF and 5 contracts between the Department and Shands Teaching Hospital and Clinics/Shands Jacksonville Medical Center and noted that, while the FLAIR information was generally accurate at the onset of the contract, it did not appear that Department staff consistently updated FLAIR for changes occurring during the term of the contract. Table 2 shows the numerous errors disclosed by our comparison.

Table 2
Results of Comparison of
FLAIR Contract and Grants Information System
to Contract Documentation for 63 Contracts

Information Field	Errors	Percentage of Errors
Long Title	2	3%
Prior Contract No.	3	5%
Contract Beginning Date	2	3%
Contract Ending Date	4	6%
Type of Service	9	14%
Contract Manager Name	18	29%
Payment Method	11	17%
Procurement Method	6	10%
Original Contract Amount	1	2%
Amended Contract Amount	3	5%
Other Cost Accumulator Code	33	52%
CFDA No.	17	27%
Vendor Name	8	13%
Vendor No.	6	10%
Recipient Code	26	41%
Billing Code	12	19%
Federal Funding Amount	26	41%
Funding Type	19	30%
Vendor/Subrecipient Determination	35	56%

Absent consistent and proper coding of contract procurement methods in the FLAIR Contract Subsystem, reliable information may not be available to management, the Legislature, and other decision makers regarding the Department's performance in procuring contracts. Also, incomplete and inaccurate contract information in FLAIR lessens the reliability of the information and diminishes its usefulness for contract management activities.

Recommendation: The Department should ensure that the correct contract procurement method codes are used in the FLAIR Contract Subsystem. Additionally, the Department should update the contract procurement method codes in the FLAIR Title File to reflect the codes authorized by Department management. The Department should also provide additional guidance and training to persons responsible for entering and updating contract information in FLAIR and conduct periodic comparisons of the information to contract documentation.

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

This operational audit focused on Department procurement practices, with an emphasis on Children's Medical Services contracts. 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.

In conducting our audit we:

- Obtained an understanding of Department internal controls related to procurement and expenditures and performed procedures to evaluate whether the controls were appropriately designed, implemented, and operating effectively.
- From the population of Department procurements for contractual services, supplies and commodities, tangible personal property items, and fixed capital outlay items occurring during the period July 2008 through December 2009 and totaling \$169.43 million, tested 75 procurements to determine whether the contracts were awarded in accordance with governing laws, rules, and Department policy; were procured at a reasonable and necessary cost; and served an authorized purpose of the State. Specifically, we examined documentation related to:
 - Forty contractual services procurements totaling \$148,144,918.

- Fifteen procurements of supplies and commodities totaling \$20,719,004.
- Fifteen tangible personal property procurements totaling \$502,128.
- Five fixed capital outlay procurements totaling \$61,500.
- From the population of Department expenditure transactions for contractual services, supplies and commodities, tangible personal property, travel, fixed capital outlay, and general administration and operations payments occurring during the period July 2008 through December 2009 and totaling approximately \$1.68 billion, tested 200 expenditure transactions to determine whether goods and services were paid for in accordance with governing laws, rules, and Department policy and that the transactions were authorized, timely and correctly coded in FLAIR, appropriate in amount, and supported by adequate documentation. Specifically, we examined documentation related to:
 - Sixty payments totaling \$195,752 for contractual services.
 - Seventy-five payments totaling \$240,465 for supplies and commodities.
 - Ten payments totaling \$50,169 for tangible personal property.
 - Eleven travel expenditures totaling \$3,197.
 - Ten payments totaling \$196,438 for fixed capital outlay.
 - Thirty-four general administration and operations expenditures totaling \$15,450.
- From the 211 CMS Program-related contracts totaling \$968,185,501, identified 61 UF contracts totaling \$240,321,448. Reviewed contract file documentation and tested procurement procedures for 7 new contracts totaling \$69,095,212 and 3 contract renewals totaling \$19,393,786 to determine Department compliance with Federal regulations, State laws, and other guidelines.
- Tested 16 UF contracts totaling \$182,371,303 for reconciliation of contract payments to actual costs incurred by UF to determine whether excess funding was returned to the Department.
- For the 61 UF contracts, identified 11 amendments that increased the applicable contract amounts by a total of \$15,388,618. Performed tests of all 11 of those amendments as well as 2 other amendments that decreased the applicable contract amounts by a total of \$3,035,504. The objectives of these tests were to determine whether the amendments were adequately documented and approved, and whether the amendment amounts were reasonable.
- For the 61 UF contracts, identified 733 contract payments totaling \$52,742,716, recorded in FLAIR during the period July 2008 through February 2010. Tested 58 contract payments, totaling \$6,178,777, for adequate supporting documentation, proper approval, and compliance with contract provisions.
- Identified 47 Memoranda of Agreement/Memoranda of Understanding used by CMS Program area offices. Reviewed information related to 30 MOAs/MOUs for compliance with Department policy.
- Tested the completeness and accuracy of FLAIR contract information by comparing information recorded in FLAIR for 63 contracts to contract file documentation.
- Compared Department and UF payroll data to identify possible dual employment and conflicts of interest.
- Analyzed payments to contracted primary care providers to identify possible dual employment and conflicts of interest.
- Analyzed CMS Network management structure to identify various employment methods.
- Reviewed UF records related to four contracts with the Department. Traced Department payments into UF accounting records, identified and tested material UF expenditures and transfers, and reviewed UF reconciliations of amounts received from the Department to actual UF expenditures.
- 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.

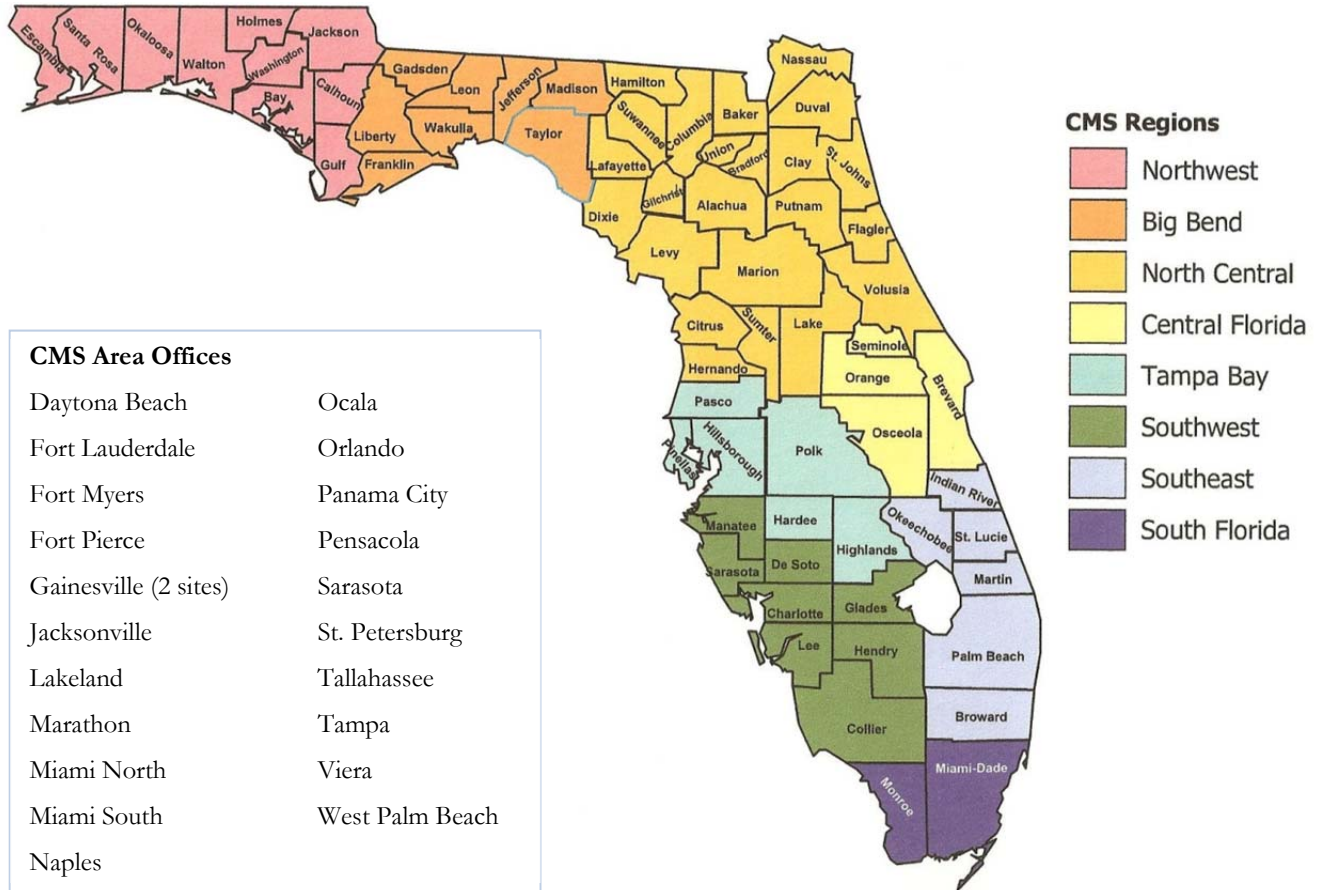


David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated June 10, 2011, the Department provided a response to our preliminary and tentative audit findings. The Department's response is included at the end of this report as **EXHIBIT F**.

**EXHIBIT A
CMS NETWORK REGIONS AND AREA OFFICES**



Source: <http://www.cms-kids.com/home/resources/publications.html>.

**EXHIBIT B
CMS NETWORK MANAGEMENT STRUCTURE
APRIL 2010**

	Regional Medical Director	Regional Nursing Director	Regional Program Administrator	Assistant Regional Medical Director	Assistant Regional Nursing Director	Medical Director	Assistant Medical Director	Nursing Director	Program Administrator	Children's Multidisciplinary Assessment Team Medical Director	Medical Foster Care Medical Director	Primary Care Medical Director	Primary Care Administrator	Early Intervention Program Medical Director
Region I														
Pensacola	B	C	C	A	A	A	B	A	A	B	B	F	F	G
Panama City	B	C	C	A	A	A	B	B	A	B	B	F	F	B
Region II														
Tallahassee	E	C	C	A	A	A	E	A	A	E	B	F	F	B
Region III														
Gainesville Referral Center	D	C	C	A	A	D	A	C	A	A	A	A	A	A
Gainesville	D	C	C	D	C	A	A	A	A	D	D	F	F	G
Ocala	D	C	C	A	A	B	A	C	A	D	B	F	F	A
Jacksonville	D	C	C	A	A	D	A	C	A	D	D	F	F	G
Daytona Beach	D	C	C	A	A	B	A	C	A	D	B	F	F	G
Region IV														
Orlando	B	C	C	A	A	A	A	A	A	B	B	F	C	G
Viera	B	C	C	B	A	A	A	C	A	B	B	F	C	G
Region V														
Tampa	D	C	C	A	C	A	A	A	A	E	E	A	A	G
St. Petersburg	D	C	C	A	A	A	D	A	A	B	E	A	A	B
Lakeland	D	C	C	B	A	A	A	A	A	E	B	A	A	G
Region VI														
Sarasota	B	C	C	A	A	B	B	A	A	B	B	F	F	G
Ft. Myers	B	C	C	A	A	B	B	A	A	B	B	F	F	G
Naples	B	C	C	A	A	A	A	B	A	B	B	F	F	A
Region VII														
Ft. Pierce	B	C	C	A	A	A	E	A	A	B	B	A	A	G
West Palm Beach	B	C	C	A	A	A	A	C	A	B	B	A	A	G
Ft. Lauderdale	B	C	C	A	A	A	C	A	A	B	E	A	A	G
Region VIII														
North Miami	D	C	C	A	A	D	A	A	A	E	E	A	A	G
South Miami	D	C	C	A	A	A	B	A	A	E	E	F	F	G
Marathon	D	C	C	A	A	A	B	C	A	A	A	A	A	A

Color Legend:

A	Area Office does not have position.	E	Contract with private provider.
B	State OPS employee.	F	Employee of the primary care contracted provider
C	State employee.	G	Employee of the Early Steps Program contracted provider.
D	Staffing contract with public or private university.		

Source: Compiled from information provided by CMS staff.

**EXHIBIT C
SERVICES PROCURED THROUGH CMS PROGRAM CONTRACTS
JULY 2008 THROUGH FEBRUARY 2010**

Provider Name	Number of Contracts	Total Contract Amount	Types of Goods or Services Procured
University of Florida	61 ^a	\$240,321,448	Various. See Exhibit D for additional details.
Medimpact Healthcare Systems	1	195,291,674	Pharmacy benefits management.
South Florida Community Care Network	2	101,431,460	Title XIX Medicaid Reform Medical and Administration-Broward, Title XXI Florida KidCare Medical and Administration-Broward and Dade.
University of Miami	17	48,085,467	Master Contract for Professional Medical Services, Genetics Screening, Pediatric Liver Transplant, Training and Education, Pediatric HIV, Medical Director-North Miami, Early Steps Program-North Miami, Cystic Fibrosis Referral, Hematology/Oncology, Diabetes/Endocrine, Adolescent Young Adult, Liver/GI, Newborn Screening, Kidney Failure.
Children's Diagnostic and Treatment Center	3	35,711,158	Pediatric HIV Program, Early Steps Program-Ft. Lauderdale.
University of South Florida Medical Service Association	20	35,287,278	Master Contract for Professional Medical Services, Genetics Screening, Pulmonary, Diabetes/Endocrine, Medical Foster Care, Adolescent Young Adult, Newborn Screening, Kidney Failure, Medical Director for Multidisciplinary Assessment Team, Statewide Regional Perinatal Intensive Care Consultant, Regional Medical Director, Pediatric HIV, Regional Perinatal Intensive Care Center, Early Steps Program-Tampa, Cystic Fibrosis Referral.
Orlando Health	3	26,801,406	Pediatric HIV, Early Steps Program-Orlando, High Risk OB Clinics.
Shands Teaching Hospital and Clinics	4	24,555,324	Master Contract for Inpatient/Outpatient Services, Transportation at Risk Pregnant Women.
Variety Children's Hospital	6	23,159,463	Primary Care-Miami, Early Steps Program-South Miami, Cystic Fibrosis Referral, Craniofacial Center.
Collier Health Care	4	22,107,180	Primary Care-Naples, Title XXI Florida KidCare Services and Administration- Naples.
All Children's Hospital	4	21,894,906	Hematology/Oncology, Early Steps Program-St. Petersburg, Cystic Fibrosis Referral, Sickle Cell Screening.
Sarasota Memorial Hospital	1	17,533,435	Early Steps Program-Sarasota.
Community Access to Child Health of Brevard	4	15,596,573	Primary Care-Sarasota and Rockledge, Early Steps Program-Rockledge.
Easter Seals Florida	1	15,503,554	Early Steps Program-West Palm Beach.
Infants and Young Children of West Central Florida	1	14,853,708	Early Steps Program-Tampa.
The Children's Home Society of Florida	1	11,739,215	Early Steps Program-Tallahassee.
The Health Planning Council of Southwest Florida	1	11,687,911	Early Steps Program-Ft. Myers.
Sacred Heart Health System	4	10,466,294	High Risk OB Clinics, Early Steps Program-Pensacola.
The Tallahassee Pediatric Foundation	2	9,526,704	Primary Care-Tallahassee.
The Children's Advocacy Center of Volusia and Flagler Counties	1	8,602,181	Early Steps Program-Daytona.
Pediatric Primary Care Foundation	3	7,636,840	Primary Care-Ocala and Daytona, Medical Foster Care.
Central Florida Child Health Program	3	6,190,040	Primary Care-Orlando, Pediatric Medical Foster Care.
Healthy Start Coalition of St. Lucie County	1	5,946,273	Hematology/Oncology, Diabetes/Endocrine, Adolescent Young Adult, Liver/GI and Newborn Screening-Services Provided by University of Miami.
Florida Panhandle Pediatric Foundation	2	5,049,679	Primary Care-Panama City.
Emerald Coast Pediatric Primary Care	2	4,202,217	Primary Care-Pensacola.
Sickle Cell Disease Association of Florida	2	4,170,240	Sickle Cell Community Education Outreach.
Managed Access to Child Health	2	3,973,775	Primary Care-Jacksonville.
St. Mary's Hospital	1 ^a	3,466,494	Early Steps Program-West Palm Beach.
Westcoast Access to Children's Health	2	3,430,120	Primary Care-Sarasota, Medical Foster Care.

EXHIBIT C (CONTINUED)
SERVICES PROCURED THROUGH CMS PROGRAM CONTRACTS
JULY 2008 THROUGH FEBRUARY 2010

Provider Name	Number of Contracts	Total Contract Amount	Types of Goods or Services Procured
Southern Baptist Hospital of Florida	3 ^a	3,400,000	Diabetes Program, Children's Cardiac Program.
Public Health Trust of Dade County	2	3,016,792	Regional Perinatal Intensive Care Center-Miami, Medical Foster Care.
Family Resource Coalition	1	2,977,441	Family Centered Care Coordination.
The Florida Center for Child and Family Development	2	2,875,690	Fetal Alcohol Diagnosis and Intervention-Sarasota.
Shands Jacksonville Medical Center	2	2,161,074	Hematology/Oncology.
Island Coast Primary Care Project	2	2,006,917	Primary Care-Fort Myers.
Help A Child	1	1,890,438	Medical Foster Care.
Juvenile Diabetes Foundation	2 ^a	1,866,796	Post-Operative and Anti-Rejection Care for Clinical Islet Transplantation Trials.
The Nemours Foundation	6	1,859,019	Hematology/Oncology, Sickle Cell Screening, Cystic Fibrosis Referral-Pensacola, Orlando, Jacksonville.
South Broward Hospital District Memorial Regional	3	1,613,836	Craniofacial Center, Cystic Fibrosis Referral.
Alpha-1 Foundation	2	1,297,622	Screening, Detection and Education for Alpha-1 Program.
Image API	1	1,280,652	Imaging.
Orlando Cancer Center	2	1,226,970	Hematology/Oncology, Sickle Cell Screening.
Northwest Florida Comprehensive Services for Children	1	1,183,656	Medical Foster Care.
Pediatric Hematology-Oncology Associates	1 ^a	1,063,402	Hematology/Oncology.
Florida Association of Pediatric Tumor Programs	1	778,400	Peer Review for Hematology/Oncology Program, Pediatric Cancer Database, Educational Program.
Children's Forum	2	556,895	Directory of Early Childhood Services, Early Steps Program Administration.
Sickle Cell Foundation	2	362,568	Sickle Cell Community Education Outreach.
Sickle Cell Disease Association of America – Northeast Florida Chapter	2	362,568	Sickle Cell Community Education Outreach.
Sickle Cell Disease Association of America –Volusia County Chapter	2	362,568	Sickle Cell Community Education Outreach.
Sickle Cell Disease Association of America – Miami Dade County Chapter	2	362,568	Sickle Cell Community Education Outreach.
Gerald L. Schiebler	1	337,000	CMS Statewide Consultant.
Child Guidance Center	1 ^a	225,000	Fetal Alcohol Diagnosis and Intervention-Jacksonville.
Indian River State College	1	214,000	Early Steps Virtual School.
Perkinelmer Health Services	1	208,933	Maintenance for the Perkin Elmer Life Cycle/Patient Care Follow Up Module.
University of South Florida	2 ^a	173,652	Multidisciplinary Medical Director, Consulting.
Sickle Cell Foundation of Palm Beach County	1	102,828	Sickle Cell Community Education Outreach.
Lee Memorial Health System	1	83,100	Cystic Fibrosis Referral Center.
Tenet St. Mary's	1	83,100	Cystic Fibrosis Referral Service.
T. Saha	1 ^a	30,000	Assistant Medical Director-Ocala.
Totals	211	\$968,185,502	

^a Eight contracts totaling \$6,734,348 were terminated during the audit period.

Source: DOH FLAIR Contract and Grants Subsystem.

EXHIBIT D
UNIVERSITY OF FLORIDA CONTRACTS
JULY 2008 THROUGH FEBRUARY 2010

	Contract Number	Contract Begin Date	Contract End Date	Total Contract Amount	Types of Goods/Services Procured
Contracts With Replacements During the Period July 2008 Through February 2010	COQCJ	4/14/2003	12/31/2009	\$ 62,708,566	Title XXI Florida Kid Care Medical and Administrative Services
	COQRS	1/1/2010	12/31/2012	56,318,559	Title XXI Florida Kid Care Medical and Administrative Services
	COQEO	7/1/2003	6/30/2009	7,823,646	Consolidated Contract-Adolescent Young Adult, Pediatric Pulmonary, Endocrine/Diabetes, Hematology/Oncology, Liver Transplant, Rheumatology, Newborn Screening
	COQRA	7/1/2009	6/30/2012	3,869,430	Consolidated Contract-Adolescent Young Adult, Pediatric Pulmonary, Endocrine/Diabetes, Hematology/Oncology, Liver Transplant, Rheumatology, Newborn Screening
	COQFK	7/1/2003	6/30/2009	5,784,608	Comprehensive Cardiac Care
	COQQY	7/1/2009	6/30/2012	2,501,889	Comprehensive Cardiac Care
	COQDG	7/1/2003	6/30/2009	3,408,020	Genetics Screening
	COQQV	7/1/2009	6/30/2012	1,885,152	Genetics Screening
	COQEN	7/1/2003	6/30/2009	3,458,448	Comprehensive Kidney Failure Center
	COORK	7/1/2009	6/30/2012	1,729,224	Comprehensive Kidney Failure Center
	COQFE	7/1/2003	6/30/2009	2,423,873	Multiple Handicapped Specialist
	COORH	7/1/2009	6/30/2012	1,511,949	Multiple Handicapped Specialist
	COQFU	7/1/2003	6/30/2009	2,146,828	CMS Enrollee Satisfaction Surveys
	COQQA	7/1/2009	6/30/2012	1,471,632	CMS Enrollee Satisfaction Surveys
	COQGD	7/1/2003	6/30/2009	2,013,504	Obstetrical High Risk Satellite Clinic
	COQOK	7/1/2009	6/30/2012	950,292	Obstetrical High Risk Satellite Clinic
	COQMT	7/1/2006	6/30/2009	1,507,187	Early Steps Program Data System
	COQRC	7/1/2009	6/30/2012	1,440,000	Early Steps Program Data System
	COQEU	7/1/2003	6/30/2009	2,336,315	Craniofacial Center
	COQRI	7/1/2009	6/30/2012	449,295	Craniofacial Center
	COQDL	7/1/2003	6/30/2009	1,568,682	Pediatric HIV Program-Jacksonville
	COQOJ	7/1/2009	6/30/2012	784,341	Pediatric HIV Program-Jacksonville
	COQFI	7/1/2003	6/30/2009	1,334,217	Primary Care - Gainesville
	COQPX	7/1/2009	6/30/2012	714,144	Primary Care - Gainesville
	COQEL	7/1/2003	6/30/2009	926,020	Pediatric Liver Transplant
	COQQU	7/1/2009	6/30/2012	375,662	Pediatric Liver Transplant
	COQER	7/1/2003	6/30/2009	1,488,000	Regional Perinatal Intensive Care Center Data System
	COQQN	7/1/2009	6/30/2012	494,016	Regional Perinatal Intensive Care Center Data System
	COQFF	7/1/2003	6/30/2009	365,500	Regional III Medical Director, Assistant Medical Director-Jacksonville
	COQQP	7/1/2009	6/30/2012	201,000	Regional III Medical Director, Assistant Medical Director-Jacksonville
	COQMN	7/1/2006	6/30/2009	358,905	Housekeeping Services - Gainesville
	COQPU	7/1/2009	6/30/2012	118,092	Housekeeping Services - Gainesville
	COQFG	7/1/2003	6/30/2009	255,110	Medical Director-Gainesville Referral Center
	COQOO	7/1/2009	6/30/2012	135,000	Medical Director-Gainesville Referral Center
	COQMQ	7/1/2006	6/30/2009	276,271	Young Adult Health Care Transition Materials-Jacksonville
	COQPZ	7/1/2009	6/30/2010	84,281	Young Adult Health Care Transition Materials-Jacksonville
	COQFP	7/1/2003	6/30/2009	156,000	Children's Multidisciplinary Assessment Team Director-Jacksonville
	COQQR	7/1/2009	6/30/2012	78,000	Children's Multidisciplinary Assessment Team Director-Jacksonville
	COQNU	7/1/2007	6/30/2009	500,000	Young Adult Health Care Transition Initiative-Jacksonville
	MOQ19	7/1/2009	6/30/2010	100,000	Young Adult Health Care Transition Initiative-Jacksonville
	COQLH	7/1/2006	6/30/2009	74,000	Hearing Aides
COQPV	7/1/2009	6/30/2012	72,000	Hearing Aides	
COQFS	7/1/2003	6/30/2009	72,000	Children's Multidisciplinary Assessment Team Director-Gainesville	
COQQQ	7/1/2009	6/30/2012	36,000	Children's Multidisciplinary Assessment Team Director-Gainesville	
COQLB	7/1/2006	6/30/2009	28,500	Medical Foster Care Medical Director-Gainesville	
COQPH	7/1/2009	6/30/2012	28,500	Medical Foster Care Medical Director-Gainesville	
Single Contracts During the Period July 2007 Through February 2010	COQJZ	7/1/2005	6/30/2011	18,724,120	Early Steps Program-Jacksonville
	COQHX	7/1/2004	6/30/2010	11,341,461	Early Steps Program-Gainesville
	COQKM	7/1/2005	6/30/2011	10,635,924	Master Contract, Dentistry, Psychological, Inpatient/Outpatient Services
	COQKL	7/1/2005	6/30/2011	9,250,044	Staffing for CMS Headquarters Professional Positions
	COQNE	5/1/2007	12/31/2011	6,891,702	Title XIX-Medicaid Reform
	COQGE	7/1/2003	6/30/2009	3,234,625	Staffing for CMS Headquarters Professional Positions
	COQGT	7/1/2004	6/30/2010	1,411,171	Pediatric HIV Program-Gainesville
	COQJH	7/1/2005	6/30/2011	985,358	Telemedicine Diabetes Clinics
	COQKK	7/1/2005	6/30/2011	612,057	Cleft Lip/Cleft Palate Medical Director-Jacksonville
	COQHL	7/1/2004	2/1/2009	325,000	Region III Assistant Medical Director
	COQNC	2/1/2007	6/30/2010	220,018	Care Coordination and Disease Management Guidelines
	COQKF	7/1/2005	6/30/2011	104,340	Medical Foster Care Medical Director-Jacksonville
	COQFT	7/1/2003	6/30/2009	96,820	Cardiac Consultant
	COQNM	7/1/2007	6/30/2010	83,100	Cystic Fibrosis Referral Service
COORD	7/1/2009	7/21/2009	43,050	Cardiac Care Consultant Outreach-Terminated 12/02/09	
Totals	61			\$240,321,448	

Contract renewed during the period July 2008 through February 2010.

Source: DOH FLAIR Contract and Grants Subsystem.

EXHIBIT E
EXCERPT FROM AUDIT REPORT NO. 2011-167

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number	FA 10-055
CFDA Number	Various (See Condition)
Program Title	Various (See Condition)
Compliance Requirement	Allowable Costs/Cost Principles
State Agency	Florida Department of Health (FDOH) University of Florida (UF)
Federal Grant/Contract Number and Grant Year	Various
Finding Type	Noncompliance and Significant Deficiency
	Questioned Costs – \$13,136,350
Prior Year Finding	Report No. 2010-165, Finding No. FA 09-054
Finding	With respect to contracts with UF, FDOH procedures did not always provide for a complete reconciliation of payments made to costs incurred by UF or provide for the return of excess funds to FDOH.
Criteria	<p>OMB Circular A-87, Attachment A, Section C. – Costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and must be authorized or not prohibited under State or local laws or regulations.</p> <p>45 CFR 92.22 (a) and 34 CFR 80.22, Allowable Costs – Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees, and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and (2) Reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.</p> <p><i>OMB Circular A-133 Compliance Supplement</i> provides that transfers of Federal awards to another component of the same auditee under OMB Circular A-133 do not constitute a subrecipient or vendor relationship.</p>
Condition	<p>We tested thirteen contracts between FDOH Children’s Medical Services and UF totaling \$123,141,112 that included \$79,054,623 in Federal funding. For 11 of the 13 contracts, FDOH had determined that under the contracts, UF was functioning as a vendor. However, as noted in the OMB Circular A-133 Compliance Supplement, transfers of awards within the same auditee, such as those between FDOH and UF, do not, under Federal regulations, constitute a vendor relationship. Consequently, as UF does not qualify under Federal regulations as a vendor for the purposes of these 11 contracts, but rather is considered to be part of the grantee, it was not clear that UF was authorized to earn or retain a profit under the contracts, should any accrue.</p> <p>For the following 5 contracts, our analysis of FDOH and UF documentation disclosed that payments were made by FDOH to UF that exceeded UF’s actual costs associated with the contracts and that FDOH did not require UF to return the excess payments.</p>

EXHIBIT E (CONTINUED)
EXCERPT FROM AUDIT REPORT NO. 2011-167

Contract Amount	CFDA No.	Federal Funding	Payments in Excess of Actual Cost
\$62,708,565	93.767 – Children’s Health Insurance Program (CHIP)	\$43,124,018	\$11,356,970 (1)
\$985,358	93.767 – Children’s Health Insurance Program (CHIP)	\$123,420	\$31,770 (2)
\$12,355,155	93.778 – Medical Assistance Program (MAP)	\$12,158,939	\$613,485 (1)
\$72,000	93.778 – Medical Assistance Program (MAP)	\$54,000	\$981 (2)
\$1,507,187	84.181 – Special Education-Grants for Infants and Families 84.173 – Special Education-Preschool Grants	\$1,130,387 \$376,800	\$1,545 (2)
(1) Excess amounts encompass the entire contract period.			
(2) Excess amounts are for the 2008-09 fiscal year only.			

Additionally, for the following contract, FDOH did not require UF to report actual costs and, therefore, did not reconcile contract payments made to UF actual costs:

Contract Amount	CFDA No.	Federal Funding	Payments in Excess of Actual Cost
\$2,146,828	93.767 – Children’s Health Insurance Program (CHIP)	\$368,635	Not Determined
	93.778 – Medical Assistance Program (MAP)	\$737,838	
	93.994 – Maternal and Child Health Services Block Grants to the States	\$25,126	

Cause FDOH and UF management believed that since the contracts were designated as vendor relationships, payments in excess of actual UF costs did not need to be returned.

Effect Failure to timely identify and recoup overpayments may result in disallowance of cost by the Federal government.

Recommendation We recommend FDOH include provisions in Federally-funded contracts with other State entities that require actual costs be reported to FDOH. Additionally, we recommend FDOH perform reconciliations of payments made to actual costs and require any excess of payments over actual costs be promptly returned to FDOH.

EXHIBIT E (CONTINUED)
EXCERPT FROM AUDIT REPORT NO. 2011-167

Florida Department of Health

**State Agency Response and
 Corrective Action Plan**

This finding sets a precedent for what would amount to a change in how State Universities are treated for purposes of making vendor vs. subrecipient determinations. This change would not only impact Children's Medical Services Network (CMSN), but would have a significant impact on all FDOH contracts with any State University receiving federal funding as payment for services. Due to the significance of this issue, CMSN has referred this issue to the Department's General Counsel's office and others for further review. CMSN is also reviewing the amounts specified as excess funding to verify them for each contract against documentation and internal reconciliations.

**Estimated Corrective
 Action Date**

None at this time.

EXHIBIT E (CONTINUED)
EXCERPT FROM AUDIT REPORT NO. 2011-167

Agency Contact and Telephone Number	Phyllis Sloyer (850) 245-4218
	<u>University of Florida</u>
State Agency Response and Corrective Action Plan	<p>The University of Florida is subject to the direction of its own Board of Trustees and the Board of Governors. In contrast, Children's Medical Services is a division of the Department of Health, which has an entirely separate reporting structure and is subject to the direction of the Governor. Thus, UF and CMS are not "parts of one body". For that reason alone, the tentative and preliminary finding should be withdrawn. The University of Florida also points out that the tentative and preliminary finding relies on an overly broad interpretation of the definition of "grantee" set forth in OMB Circular A-87. Indeed, it is well settled that state universities (although state agencies) are distinct for grant administration purposes from state executive agencies. For example, in the context of reporting under the American Recovery & Reinvestment Act, the Office of Management & Budget has issued guidance explaining that state-funded universities may receive subawards from another state agency. See Frequently Asked Questions - American Recovery and Reinvestment Act of 2009, available at http://www.whitehouse.gov/omb/recovery_faqs/#21-6 ("Q. Are State funded universities or institutions of higher education considered a State agency or sub-recipient for reporting purposes? A. State funded universities or institutions of higher education should generally be treated as a sub-recipient when receiving ARRA funds from a State agency.) Thus, treating the University of Florida as the same "body" as Children's Medical Services is inconsistent with the federal government's view that transactions between a state university and a state executive agency are appropriately classified as subawards and subcontracts, both fixed price and cost reimbursable.</p> <p>In addition, the University notes that it does not agree with all of the information summarized in the background condition above, particularly, but not necessarily exclusively the absence of a recognition of the University's financial obligations and risks.</p> <p>UF also has not had an opportunity to check the calculations in the above-referenced chart but reserves the right to do so and also notes that some of the numbers reflect only one year while others purport to reflect the whole contract term.</p>
Estimated Corrective Action Date	No corrective action necessary
Agency Contact and Telephone Number	Thomas E. Walsh, PhD, Director of Sponsored Research and Compliance (352) 392-1005
Auditor's Remarks	As discussed above, transfers of awards between the same auditee, such as those between FDOH and UF, do not, under Federal regulations, constitute a vendor relationship. Consequently, it was not clear that UF was authorized to earn or retain a profit under contacts with FDOH, should any accrue. Therefore, we continue to recommend that FDOH perform a complete reconciliation of payments made to costs incurred by UF, and the return of excess funds to FDOH.

EXHIBIT E (CONTINUED)
EXCERPT FROM AUDIT REPORT NO. 2011-167

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number FA 10-056
CFDA Number Various (See Condition)
Program Title Various (See Condition)
Compliance Requirement Allowable Costs/Cost Principles
State Agency Florida Department of Health (FDOH)
Federal Grant/Contract Number and Grant Year Various
Finding Type Significant Deficiency
Prior Year Finding Report No. 2010-165, Finding No. FA 09-054

Finding FDOH did not fully demonstrate the appropriateness of the costs charged to Federal programs with respect to contracts with the University of Florida (UF).

Criteria OMB Circular A-87, Attachment A, Section C. – Costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and must be authorized or not prohibited under State or local laws or regulations. In determining reasonableness of a given cost, consideration shall be given to the restraints or requirements imposed by such factors as sound business practices; arms length bargaining; Federal and State laws; the market prices for comparable goods or services; and significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award’s costs.

Condition We tested the following three new contracts that were entered into by FDOH Children’s Medical Services (CMS) and UF during the 2009-10 fiscal year:

Contract Amount	CFDA No.	Federal Funding
\$1,471,632	93.767 – Children’s Health Insurance Program (CHIP) 93.778 – Medical Assistance Program (MAP) 93.994 – Maternal and Child Health Services Block Grants to the States	\$388,897 \$881,973 \$24,237
\$56,318,559	93.767 – Children’s Health Insurance Program (CHIP)	\$38,735,905
\$1,440,000	84.181 – Special Education -Grants for Infants and Families	\$1,440,000

FDOH’s decision to enter into these contracts was not preceded by attempts to identify other possible providers or reevaluate whether to provide the services in-house, but rather was based on the historical contractual relationship with UF and FDOH’s positive evaluation of UF’s performance under previous contracts for the same services. To derive the contract amounts, FDOH used documents provided by UF that reflected UF’s estimated costs to provide the services. However, FDOH did not require supporting documents to substantiate the reasonableness of the estimated costs and FDOH staff did not perform additional procedures to demonstrate the reasonableness of the contracted amounts.

Cause FDOH applied the exemption to State competitive procurement requirements for the purchase of health related services that is provided by Section 287.057(3)(f), Florida Statutes.

EXHIBIT E (CONTINUED)
EXCERPT FROM AUDIT REPORT NO. 2011-167

Effect	Absent competition or a documented detailed analysis of cost, FDOH cannot demonstrate that amounts paid were in the best interest of the State and the Federal grantor agency.
Recommendation	We recommend that FDOH ensure appropriate documentation is retained in the contract file demonstrating that costs paid are reasonable and necessary and consistent with public and private payment rates for similar services.
State Agency Response and Corrective Action Plan	<p>We concur. FDOH Division of Children's Medical Services Network (CMSN) agrees with the finding in the context of the deficiency in documenting its decision to contract with UF for the services in the three contracts listed. While FDOH believes that all of the factors related to the requirements of costs listed in the finding and as specified in the Office of Management and Budget Circular (OMB) A-87 were considered in its decision to contract for each of the services, and though CMSN followed Department policy which requires a Justification for Noncompetitive Procurement, all of the factors for consideration in making such determinations were not included in this information and therefore not properly documented in the contract file.</p> <p>FDOH CMSN will create documentation in accordance with OMB A-87 for each contract and ensure that it is maintained in the contract file for as long as FDOH CMSN has a contract with the providers for these services, no later than June 30, 2011.</p>
Estimated Corrective Action Date	March 1, 2011
Agency Contact and Telephone Number	Phyllis Sloyer (850) 245-4218

**EXHIBIT F
MANAGEMENT'S RESPONSE**



Rick Scott
Governor

H. Frank Farmer, Jr., M.D., Ph.D.
State Surgeon General

June 10, 2011

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

Dear Mr. Martin:

We are pleased to respond to the preliminary and tentative audit findings and recommendations concerning the Auditor General's Operational Audit of the Department of Health, Procurement and Expenditure Processes, Children's Medical Services, and Selected Administrative Matters. Our response to the findings is enclosed as required by section 11.45(4)(d), *Florida Statutes*.

We appreciate the effort of you and your staff in assisting to improve our operations. If you have any questions, please contact our Director of Auditing, Michael J. Bennett by calling (850) 245-4444 extension 2150.

Sincerely,

A handwritten signature in green ink, appearing to read "Kimberly A. Berfield".

Kimberly A. Berfield
Deputy Secretary

HFF/kir
Attachment

cc: James D. Boyd, C.P.A., M.B.A.
Inspector General
Michael J. Bennett, C.I.A.
Director of Auditing

**EXHIBIT F
MANAGEMENT’S RESPONSE (CONTINUED)**

Department of Health, Procurement and Expenditure Processes, Children’s Medical Services, and Selected Administrative Matters

Para. #	Finding:	Recommendation:	Management Response:	Corrective Action Plan:
1	<p>The department’s procedures for noncompetitive contract procurement required the use of three forms to document contracting decisions: a Memorandum of Negotiation, Documentation for Noncompetitive Procurement, and a Cost/Price Analysis. While we noted that completed forms were generally present in the contract files, the explanations and information contained therein were not reflective of concerted staff efforts to procure the necessary services at an appropriate price.</p>	<p>The department should improve its contracting procurement process to ensure that contracting decisions are based on concerted efforts to procure services at the appropriate price. The department should ensure compliance with the procedures with more thorough documentation requirements and supervisory review of completed forms.</p>	<p>Children’s Medical Services Network (CMSN) does not completely agree with this finding. In regards to procuring health care services at an appropriate price, statutory exemptions are used since procurement decisions are made on factors other than price, such as qualified providers who provide pediatric or specialty health care services, quality of care, care standards, service availability and accessibility for clients, and meeting credentialing requirements. The pool of qualified providers is extremely limited as evidenced in the recent (Invitation to Negotiate (ITN) for Early Intervention Services which resulted in no new respondents. The explanation in the Documentation for Noncompetitive Procurement form for the contracts states the factors used for noncompetitive procurement and follows the specifications included in the instructions for the form.</p> <p>CMSN will specify the condition specific information in the documentation for each contract and recognizes that most of the same factors are considered when making procurement decisions for each of the medical/therapy etc. services listed.</p> <p>In response to the issues related to the completion of the Memorandum of Negotiation, these forms are completed in accordance with the specifications included in the instructions for each form. Currently, the forms do not call for a narrative of the discussions during the negotiation process, neither is there any place on the form to provide this type of information - if the department modifies the form to include this information, CMSN will comply.</p> <p>In response to the issues identified for the Cost Price Analysis - as they pertain specifically to contract COQKL Staffing contract and COQJZ Early Steps contract. The COQKL contract provides ongoing staffing in support of CMSN HQ programs. Pricing for positions established in the contract are set within the salary ranges for similar state positions and include an administration rate of 5%. In regards to contract COQJZ which provides services for the CMSN Early Steps program, the Cost and Pricing Analysis for FY 09-10 provides a very detailed explanation of how contract pricing is established which is based on a cost allocation methodology approved by the department of Financial Services and the federal awarding agency.</p>	<p>CMSN will comply and include any additional information specific to the conditions contracted on the forms referenced. CMSN will update the Cost Price Analysis for the staffing contract with the University of Florida to include the information pertaining to the comparative pricing of position salaries and fringe benefits for the same or similar state positions.</p> <p>Anticipated completion date: September 30, 2011.</p>

**EXHIBIT F
MANAGEMENT’S RESPONSE (CONTINUED)**

<i>Para. # Finding:</i>	<i>Recommendation:</i>	<i>Management Response:</i>	<i>Corrective Action Plan:</i>
<p>2</p> <p>CMS Program area offices did not always follow department policy when using Memoranda of Agreement (MOA) or Memoranda of Understanding (MOU) in lieu of standard contract documents.</p>	<p>The department should ensure that area offices comply with department policy regarding the limited use of MOAs and MOUs. Actions should include performing a comprehensive assessment to identify all MOAs and MOUs in existence within the department, reviewing existing MOAs and MOUs to determine whether the department would be better served by converting the agreements to formal contracts, and implementing procedures to ensure that MOAs and MOUs are subject to review and approval by budget and contract administration staff and are timely entered into FLAIR for tracking and reporting.</p>	<p>CMSN concurs.</p>	<p>CMS has started the process of collecting copies of all such agreements from the Area Offices in January 2011, and developing policies and processes to track these agreements. CMS will also instruct Area Office Program Administrators to submit any future or current agreements which have not completed the formal review process and which fall under the requirements of the policy memorandum through the prescribed routing and approval process.</p> <p>Anticipated completion date: June 30, 2011.</p>
<p>3</p> <p>The department did not always correctly enter the contract procurement method code into the Florida Accounting Information Resource Subsystem (FLAIR) Contract Subsystem. In addition, some procurement method codes maintained by the department in the FLAIR Title File were incorrect.</p>	<p>The department should ensure that the correct contract procurement method codes are used in the FLAIR Contract Subsystem. Additionally, the department should update the contract procurement method codes in the FLAIR Title File to reflect the codes authorized by department management. The department should also provide additional guidance and training to persons responsible for entering and updating contract information in FLAIR and conduct periodic comparisons of the information to contract documentation.</p>	<p>Concur. The Department now has the capability of updating the Title File to correctly reflect the department codes on the contract data form (H1122). In addition, the department will provide training to selected county health department staff on the appropriate input of contract data in the FLAIR Contract Information File. Random samples of information in the file and the contract document will be made to ensure future accuracy.</p>	<p>The Department now has the capability of updating the procurement method codes in the FLAIR Title File to correctly reflect the department codes on the contract data form (H1122). In addition, the department will provide training to selected county health department staff on the appropriate input of contract data in the FLAIR Contract Information File. Random samples of information in the file and the contract document will be made to ensure future accuracy.</p> <p>Anticipated completion date: June 30, 2011.</p>