

DEPARTMENT OF CITRUS

**CONTRACT MANAGEMENT AND
OTHER ADMINISTRATIVE MATTERS**

Operational Audit



FLORIDA CITRUS COMMISSION AND EXECUTIVE DIRECTOR

Pursuant to Section 20.29(1), Florida Statutes, the Florida Citrus Commission is the head of the Department of Citrus. Section 601.04(1)(a), Florida Statutes, establishes that the Commission shall consist of nine Commissioners appointed by the Governor, subject to confirmation by the Senate. Six members of the Commission are to be classified as grower members and three members as grower-handler members. Three commission members are to be appointed from each of the three citrus districts designated in Section 601.09, Florida Statutes. Members are to be appointed to staggered three-year terms, pursuant to the requirements of Section 601.04(2)(b), Florida Statutes. The following Commission members served during the period of our audit:

Martin "Marty" J. McKenna, Chair	District 2
Michael J. Garavaglia, Jr., Vice-Chair	District 1
James S. Horrisberger	District 1
G. Ellis Hunt, Jr.	District 1
J.A. "Jay" Clark III	District 2
Vernon "V.C." Hollingsworth III	District 2
Michael W. Haycock	District 3
Virginia S. Pena	District 3
Michael O. Taylor	District 3

Pursuant to Section 20.29(2), Florida Statutes, an Executive Director is to be appointed by a majority vote of, and serves at the pleasure of, the Commission. The Commission is responsible for assigning the Executive Director's powers and duties. The Executive Directors who served during the period of our audit were:

Douglas Ackerman	From January 2012
Debra Funkhouser	From August 2011 to January 2012
Kenneth Keck	To August 2011

The audit team leader was Becky D. Grode, CPA, and the audit was supervised by David A. Blanton, CPA. Please address inquiries regarding this report to Matthew Tracy, CPA, Audit Manager, by e-mail at matthewtracy@aud.state.fl.us or by telephone at (850) 412-2749.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF CITRUS

Contract Management and Other Administrative Matters

SUMMARY

This operational audit of the Department of Citrus (Department) focused on contract procurement and management, travel and State purchasing card expenditures, and other administrative matters. The audit also included a follow-up on the audit finding noted in our report No. 2011-130. Our audit disclosed the following:

Finding No. 1: Department controls over scientific research contract disbursements could be enhanced.

Finding No. 2: The Department had not established written policies and procedures for certain information technology functions.

BACKGROUND

Pursuant to the Florida Citrus Code,¹ the Department of Citrus (Department) is charged with regulating, conducting research for, and promoting Florida's citrus industry. The Florida Citrus Commission (Commission) serves as the Department head and oversees and guides the activities of the Department. The Department maintained its executive offices at Bartow, Florida.

The Department's primary sources of revenue are Federal grants and an assessment placed on each box of citrus moved by Florida growers through commercial channels. For the 2012-13 fiscal year, the Legislature appropriated over \$61 million to the Department. Of this amount, the Department's 2012-13 fiscal year operating budget provided 71 percent for products marketing, 22 percent for citrus research, and 7 percent for executive direction and support services. The citrus research activities funded by the Department included marketing research (e.g., consumer purchasing data analyses, studies to track the effectiveness of advertising and analyze consumer awareness and attitudes toward citrus products, and consumer taste tests) and scientific research (e.g., development of methods and strategies to improve tree management and combat citrus greening²).

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Scientific Research Contract Disbursement Controls

Effective contract management requires the monitoring of contract performance and service delivery to ensure compliance with the terms of the contract, verify the provision of contract deliverables, and evaluate the achievement of related Department goals. Department policies and procedures³ required that every contractual service in excess of \$50,000 procured between a primary contract agency of the Department and a third-party vendor be evidenced by a written agreement. Additionally, all such agreements were to be submitted to the Department's Project Manager. Department policies and procedures also required that bid recaps be completed by primary contract agencies and submitted to the Department for competitive procurements executed by the agencies in excess of \$35,000.

During the period July 2011 through February 2013, the Department expended \$14.9 million for scientific research, 18 percent of total Department expenditures. The Department contracts with various agencies to conduct and

¹ Chapter 601, Florida Statutes.

² Citrus greening (Huanglongbing) is a bacterial disease that attacks the tree's vascular system, ultimately killing the tree.

³ Department of Citrus Fiscal Policy No. 102, *Contract Agency*.

manage scientific research related to emerging citrus diseases and for the commercialization of promising technologies benefiting the State's citrus industry. To execute their contractual duties, these agencies, in turn, oftentimes contract with third-party vendors. Our audit disclosed that the Department had established policies and procedures for primary contract agencies that required, among other things, the preparation of cost estimates detailing approved research activities, the establishment of budgets for each activity, and the identification of specific detailed tactics for each activity. However, our test of Department documentation for ten disbursements, totaling approximately \$3.6 million and made during the period July 2011 through February 2013, related to five contracts with the Department's three scientific research primary contract agencies disclosed that the Department did not always obtain appropriate documentation prior to issuing payments to the primary contract agencies. Specifically:

- Contrary to Department policies and procedures, the Department did not always obtain copies of the third-party vendor contracts procured by the primary contract agencies. We noted that, for the six scientific research disbursements (related to three contracts with one primary contract agency) exceeding \$50,000 and totaling \$3.4 million, the Department had not requested or received copies of the third-party vendor contracts from the primary contract agency. Absent receipt and review of third-party vendor contracts, the Department's ability to verify that deliverables are satisfactorily provided is limited.
- Department policies and procedures, as well as Department-approved cost estimates, required that primary contract agencies identify when competitive bids were required for various activities and the policies and procedures also required that bid recaps be submitted. We noted that, although the Department's primary scientific research contract agencies had each identified on cost estimate documentation that competitive bids were required for a total of 150 activities, bid recaps evidencing the solicitation of bids and supporting one primary contract agency's decisions to select a particular vendor were not obtained by the Department. Specifically, Department records disclosed that 150 third-party vendor contracts in excess of \$35,000 and totaling \$28.8 million were not supported by bid recaps. To facilitate adequate control over scientific research costs and demonstrate that services were procured equitably and economically, it is important that the Department obtain and review bid recaps for all the primary contract agencies' competitive procurements.
- Department records did not demonstrate review of documentation, such as progress reports, prepared by third-party vendors, evidencing the timely provision of required deliverables. Instead, the Department relied on notes made by the primary contract agencies' staff which indicated the dates work was completed. Absent review of documentation prepared by third-party vendors, the Department has limited assurance that specified deliverables had been satisfactorily provided prior to the Department's payment to the primary contract agency.

To ensure that scientific research contract deliverables were satisfactorily provided, Department staff indicated, in response to our audit inquiry, that they relied on the primary contract agencies' controls and periodic audits performed by the Department's Inspector General (IG) of the agencies and their third-party vendor contracts. We reviewed the IG reports for the primary contract agencies and found that audit reports had not been issued for two of the three primary contract agencies since February 2009 and June 2011, respectively. In addition, we noted that the Department's current IG is not independent with regard to the Department's largest scientific research primary contract agency and thus, the Department may need to outsource any future audits of that agency.

Recommendation: We recommend that the Department enhance its controls to ensure that third-party scientific research contracts and bid recaps are obtained in accordance with the requirements of Department policies and procedures. We also recommend that the Department enhance its controls to ensure that, prior to issuing payments to primary contract agencies, contract deliverables have been satisfied.

Finding No. 2: Information Technology Policies and Procedures

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

Although the Department had established policies and procedures addressing certain IT functions, such as remote access to the Department's network and e-mail use, the Department had not established written policies and procedures for the following IT functions:

- Deactivating user access privileges for terminated or reassigned employees in a timely manner;
- Reviewing user access privileges for appropriateness;
- Restricting data center access, including an entry and exit log for authorized users and visitors;
- Implementing antivirus software and firewalls;
- Developing and maintaining application systems;
- Requesting, approving, assigning, and removing user IDs and passwords; and
- Establishing and changing passwords.

In response to our audit inquiry, Department management indicated that procedures for each of these IT functions had been established; however, the procedures had not been reduced to writing. Without written policies and procedures, the risk is increased that IT controls may not be communicated consistently to staff.

Recommendation: We recommend that the Department enhance its written IT policies and procedures to better ensure that all IT controls are communicated consistently.

PRIOR AUDIT FOLLOW-UP

The Department had taken corrective actions for the finding included in our report No. 2011-130.

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 February 2013 through June 2013 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 contract procurement and management, travel and State purchasing card expenditures, and other administrative matters. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.

- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To determine whether management had corrected, or was in the process of correcting, the deficiency disclosed in our report No. 2011-130.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

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

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

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

In conducting our audit we:

- Reviewed applicable laws, rules, and other State and Federal guidelines to obtain an understanding of the legal framework governing the Department's operations.
- Interviewed Department personnel and reviewed Department policies, procedures, administrative rules, and other applicable guidance to obtain an understanding of Department operations and industry changes and identify opportunities for enhanced efficiency and effectiveness.
- Determined whether the Department had established controls to reasonably ensure that goods and services were procured in accordance with applicable laws, rules, and other guidelines. In making this determination, we examined documentation for Department procurements made, and related contracts awarded, during the period July 2011 through February 2013 relating to:
 - Four sole source procurements totaling \$7,901,700.
 - Six competitive procurements totaling \$33,391,000.

- Tested 25 cost estimates totaling \$14,177,910 that had been prepared by advertising and promotional contract agencies and approved by the Department during the period July 2011 through February 2013 to determine whether the cost estimates included sufficiently detailed information to allow for proper monitoring.
- Reviewed Department contract monitoring documentation related to six contracts totaling \$11,191,000 to determine whether Department monitoring efforts were adequate.
- Determined whether selected expenditures were adequately documented; made in accordance with applicable laws, rules, and contract terms; properly authorized and approved; and in correct amounts. Specifically, for Department purchasing card transactions and promotional advertising, scientific research, and travel expenditures made during the period July 2011 through February 2013, we examined:
 - From the population of contractual service expenditures totaling \$41,620,630, documentation related to 25 payments totaling \$2,754,757.
 - From the population of scientific research expenditures totaling \$14,864,181, documentation related to 10 payments totaling \$3,562,010 made to scientific research providers.
 - From the population of purchasing card transactions totaling \$512,906, documentation related to 25 transactions totaling \$32,296.
 - From the population of travel expenditures totaling \$406,454, documentation related to 20 expenditures totaling \$15,551.
- Examined documentation related to 2 of the 20 monthly purchasing card reconciliations performed by Department personnel during the period July 2011 through February 2013 to determine whether the reconciliations were performed timely and in accordance with the requirements of Department policies and procedures.
- Determined whether the Department had prepared and filed the 2011-12 fiscal year annual travel report in accordance with the requirements of Section 601.99035, Florida Statutes.
- Obtained an understanding of IT controls, assessed the related control risks, evaluated whether selected general IT controls were in place, and tested the effectiveness of the controls.
- Examined all applicable salary adjustments made during the period July 2011 through January 2013 to determine whether the adjustments were made in accordance with the requirements of Section 601.99036, Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- 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 the matters requiring corrective actions.

AUTHORITY

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



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated August 5, 2013, the Executive Director of the Department of Citrus concurred with our audit findings and recommendations. The Executive Director's response is included as **EXHIBIT A**.

**EXHIBIT A
MANAGEMENT'S RESPONSE**



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MARTIN McKENNA
CHAIRMAN
FLORIDA CITRUS COMMISSION

August 5, 2013

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

Dear Mr. Martin,

We received your July 23, 2013 list of preliminary and tentative audit findings and recommendations resulting from your operational audit of the Department of Citrus for the period July 2011 through February 2013, and appreciate the thoroughness of your auditors. Our response, in accordance with Section 11.45(4)(d), Florida Statutes, follows:

Finding No. 1: Scientific Research Contract Disbursement Controls

Recommendation: We recommend that the Department enhance its controls to ensure that third-party scientific research contracts and bid recaps are obtained in accordance with the requirements of Department policies and procedures. We also recommend that the Department enhance its controls to ensure that, prior to issuing payments to primary contract agencies, contract deliverables have been satisfied.

The Department of Citrus agrees that sufficient controls are required to ensure adherence to policies and procedures, but we also recognize that sufficient documentation can take different forms. We have begun discussions in review of the procedures outlined in Fiscal Policy #102 Contract Agency, which was designed to implement controls for our advertising and marketing programs. The discussions include how to effectively and efficiently utilize the Florida citrus industry oversight and scrutiny already provided in the daily operations of the largest scientific research primary contract agency referenced in this finding.

This agency fully operates in the sunshine, engaging scientists from around the world to review and analyze program direction; approval of projects for advancement of a cure for citrus greening disease (HLB) is done in a public meeting. The agency's website contains detailed information on each project's progress to keep not only the Florida citrus industry, but other states that are facing the effects of HLB, updated with the latest results of all aspects of research conducted. Ongoing communication efforts via newsletters, local and international seminars, and industry communications put the research results in the hands of growers looking for answers to this devastating disease. The Department will determine the most efficient methods to document adherence to all policies and procedures.

Maximize consumer demand for Florida citrus products to ensure the sustainability and economic well-being of the Florida citrus grower, the citrus industry and the State of Florida.

The Florida Department of Citrus is an Equal Opportunity Employer and Agency.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 2: Information Technology Policies and Procedures

Recommendation: We recommend that the Department enhance its written IT policies and procedures to better ensure that all IT controls are communicated consistently.

The Department agrees with this finding and has begun developing these written procedures.

Your staff was very attentive and professional throughout the engagement. Thank you for the support provided by these comments.

Regards,



Douglas Ackerman
Executive Director