

**AGENCY FOR HEALTH CARE
ADMINISTRATION**

FINANCIAL MANAGEMENT

Operational Audit



SECRETARY OF THE AGENCY FOR HEALTH CARE ADMINISTRATION

The Agency for Health Care Administration is created by Section 20.42, Florida Statutes. The head of the Agency is the Secretary who is appointed by the Governor, subject to confirmation by the Senate. Elizabeth Dudek served as Secretary during the period of our audit.

The audit team leader was Millicent Burns, CPA, and the audit was supervised by Karen Van Amburg, CPA. Please address inquiries regarding this report to Lisa A. Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 412-2831.

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.

AGENCY FOR HEALTH CARE ADMINISTRATION

Financial Management

SUMMARY

This operational audit of the Agency for Health Care Administration (Agency) focused on the Agency's financial management controls and activities of the Bureau of Financial Services (Bureau). Our audit disclosed the following:

Finding No. 1: The Bureau had not established sufficiently comprehensive policies and procedures or developed a Bureau-specific training program to ensure that staff were provided appropriate guidance and training related to the Agency's complex accounting and budgeting tasks.

Finding No. 2: The Bureau had not established appropriate controls to ensure that sufficient documentation was always maintained to support accounting transactions or to ensure that transactions were timely and correctly entered in the State's accounting system.

Finding No. 3: The Bureau's year-end closing process needs enhancement to ensure timely, accurate, and complete financial reporting in compliance with applicable accounting standards and State and Federal requirements.

BACKGROUND

State law¹ designates the Agency for Health Care Administration (Agency) as the chief health policy and planning entity for the State. The Agency's statutory responsibilities include, but are not limited to: licensing, inspecting, and regulating health care facilities; investigating consumer complaints related to health care facilities and managed care plans; administering contracts with the Florida Healthy Kids Corporation; and administering the State's Medicaid Program.² During the 2012-13 fiscal year, the Agency expended approximately \$21.2 billion, including approximately \$11.5 billion from Federal grant funds.³

Agency program operations are decentralized, with Agency headquarters in Tallahassee and offices located throughout the State in 11 regions. The Agency's administrative functions are handled by various bureaus at headquarters. The Agency, Division of Operations, Bureau of Financial Services (Bureau), is responsible for accounting and budgeting functions. The Agency created the Bureau effective October 25, 2013, by merging the Bureau of Finance and Accounting with the Budget Office, and established the position of Chief Financial Officer to lead the Bureau. At December 2013, the Bureau had 53 positions and was structured into three sections: Budget Services, Grants Reporting and Medicaid Accounts Receivable, and Accounting Policy and Systems and Disbursements. The Bureau's organizational structure is shown in **EXHIBIT A** to this report.

¹ Section 20.42(3), Florida Statutes.

² The State's Medicaid Program is a joint Federal and State-funded program that pays for health care services provided to recipients who meet the Program's eligibility criteria.

³ Federal grant funds included the Medical Assistance Program (Catalog of Federal Domestic Assistance (CFDA) No. 93.778); Children's Health Insurance Program (CFDA No. 93.767); and Refugee Entrant and Assistance – State Administered Programs (CFDA No. 93.566).

FINDINGS AND RECOMMENDATIONS

State law⁴ requires each State agency to establish and maintain management systems and controls that promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of assets. State law also requires that accounting systems and procedures be designed to fulfill the requirements of generally accepted accounting principles. The Agency's complex legal, regulatory, and programmatic environment creates unique challenges and accounting issues that necessitate the establishment of effective financial management controls and comprehensive accounting procedures.

In our reports on other audits of the Agency, most recently our report No. 2014-173, *State of Florida Compliance and Internal Controls over Financial Reporting and Federal Awards*, we have noted significant control deficiencies related to the Agency's accounting records and financial reporting, as well as instances in which the Agency did not comply with generally accepted accounting principles and applicable State and Federal requirements. The issues noted in our audit report findings were generally attributed to the Agency's lack of established policies and procedures, or employee errors that were not detected due to inadequate supervisory review.

This audit focused on evaluating the controls established by Agency management to promote effective financial management and ensure the proper accounting and reporting of Agency financial information by Bureau staff. Our audit procedures disclosed that Bureau policies and procedures, including those addressing Bureau staff training, need enhancement to effectively promote and encourage the reliability of Agency financial records and reports and Agency compliance with generally accepted accounting principles and other applicable State and Federal requirements.

Finding No. 1: Bureau Policies and Procedures and Staff Training

The Agency is responsible for administering the State's Medicaid Program, and other Federally funded programs, and for licensing and regulating health care facilities. As a result, the Bureau performs a variety of complex accounting and budgeting tasks for the Agency. These tasks include, but are not limited to: budgeting and tracking Medicaid expenditures among numerous special appropriation categories; coordinating with the Agency's third-party administrator responsible for payment of Medicaid claims; making large year-end accounting entries and adjustments related to estimates for Medicaid payables and receivables; and ensuring that Agency expenditures used to comply with Federal program matching requirements are appropriately tracked and reported.

As part of our audit, we interviewed Bureau management and staff, reviewed Bureau policies and procedures, and examined documentation related to the Bureau's organizational structure and training. Our audit disclosed that Bureau management had not established sufficiently comprehensive policies and procedures or developed a Bureau-specific training program to ensure that staff were provided appropriate guidance and training related to the accounting and budgeting tasks they were required to perform. Specifically, we found that:

- The Bureau's written policies and procedures primarily consisted of desk procedures that listed detailed steps to be performed for specific accounting and budgeting tasks. However, the desk procedures did not always:
 - Reference to, or provide sufficient descriptions of the provisions of, applicable laws, rules, and regulations.
 - Reference to, or provide sufficient direction regarding, applicable accounting standards and guidance.
 - Address the relationship of a particular task to other Bureau tasks and functions.

⁴ Section 215.86, Florida Statutes.

- Include instructions on documentation requirements for transactions recorded in Agency financial records.
 - Appropriately address internal controls or separation of duties.
 - Evidence that Bureau management had reviewed and approved the desk procedures for Bureau staff use.
 - Indicate an effective date, or date of last revision, to facilitate the identification of the current procedures.
- The Bureau had not established a Bureau-specific training program or training plan outlining management’s employee training vision and goals. Our examination of the training records and personnel files for 17 selected Bureau employees (10 supervisors and 7 staff) disclosed that no documentation was available to demonstrate that 12 employees had received any accounting or budgeting training during the period July 2012 through February 2014.

We also analyzed the personnel records for 17 Bureau employees to evaluate the extent to which staff experience and turnover intensified the need for comprehensive policies and procedures and staff training. As shown in Table 1, we discovered that the Bureau had experienced significant turnover in the supervisory positions and that 8 of the 17 selected Bureau employees had been with the Agency for 3 years or less.

Table 1
Number of Bureau Positions and Vacancies and
Time in Current Position and Length of Agency Employment
for Selected Bureau Employees as of February 28, 2014

	Supervisors	Staff	Totals
Number of Bureau Positions	12	41	<u>53</u>
Number of Vacancies	2	6	<u>8</u>
Number of Bureau Employees Included in Audit Testing	10	7	<u>17</u>
Number of Selected Bureau Employees in Current Positions:			
• Less than 1 Year	8	3	<u>11</u>
• 1 Year to 3 Years	1	-	<u>1</u>
• More than 3 Years	1	4	<u>5</u>
Number of Selected Bureau Employees Employed with the Agency:			
• Less than 1 Year	3	1	<u>4</u>
• 1 Year to 3 Years	3	1	<u>4</u>
• More than 3 Years	4	5	<u>9</u>

Source: Auditor analysis of Agency records.

In addition to enhancing policies and procedures and staff training, the Agency could further mitigate the effects of staff turnover and the Bureau staff’s inexperience with Agency accounting and budgeting tasks by seeking to employ individuals with relevant education and knowledge. However, our review of the descriptions for 17 Bureau positions disclosed that only 1 position description specified knowledge of Federal laws, rules, and regulations related to grants accounting as a position requirement and none of the position descriptions specified a preference for a college degree in accounting or finance, an advanced college degree, or a professional designation such as Certified Public Accountant (CPA) or Certified Government Financial Manager (CGFM). Our review of the personnel records for the Bureau employees assigned to those 17 positions as of February 28, 2014, disclosed that 4 of the 10 supervisors and 1 of the 7 staff held a bachelor’s degree in accounting. Each of the remaining 12 employees either held a

bachelor's or associate's degree in a field unrelated to finance and accounting or did not possess a college degree. None of the supervisors or staff held an advanced degree, or had a CPA or CGFM designation.

Without adequate written policies and procedures, a Bureau-specific training program, staff continuity, and Bureau staff with relevant accounting and budgeting education and experience, the risk of noncompliance with State and Federal laws, rules, and regulations and the likelihood of material misstatements in Agency financial records is increased. Consistency and accuracy in the performance of accounting and budgeting processes may also be hindered. As noted in finding Nos. 2 and 3, the lack of adequate policies and procedures contributed to errors in Agency accounting transactions and fiscal year-end closing and financial reporting processes.

In response to our audit inquiries, Bureau management indicated that they were in the process of conducting a functional assessment of the Bureau's operations, with the purpose of improving the efficiency and effectiveness of the Bureau's processes. Bureau management also indicated that the planned improvements would address, among other things, staff qualifications, staff training, and enhancements to written policies and procedures.

Recommendation: We recommend that Bureau management enhance existing policies and procedures to ensure that the Bureau's responsibilities and unique operations are sufficiently addressed. The enhanced policies and procedures should promote compliance with applicable laws, rules, regulations, and accounting standards, and provide sufficient guidance to staff to ensure consistency in the event of staff turnover. In addition, we recommend that Bureau management develop a staff training program that is specifically tailored to address the complexity of the Agency's financial operations and that Bureau management consider revising the Bureau's position descriptions to specify the relevant education and experience needed to perform the Agency's complex accounting and budgeting tasks.

Finding No. 2: Accounting Transactions

State law⁵ specifies that State agencies are responsible for maintaining the accounting records necessary for the effective management of their programs and functions. Fundamental to their oversight of the Agency's accounting and budgeting functions, Bureau management has responsibility for implementing controls to ensure that financial transactions and records are complete; adequately supported; made in compliance with applicable laws, rules, regulations, and accounting standards; and properly authorized. For example, Bureau controls should ensure that Agency expenditures related to Federal awards programs are adequately supported to demonstrate compliance with Federal guidelines⁶ related to allowability and matching.

As part of our audit, we examined available documentation supporting 249 Agency transactions, with cumulative absolute values of approximately \$13 billion, recorded in the Florida Accounting Information Resource Subsystem (FLAIR), the State's accounting system, during the 18-month period July 1, 2012, through December 31, 2013. The transactions included in our audit testing related to revenues (25 transactions); expenditures (35 transactions); accounts payable (24 transactions); various transfers (80 transactions); correcting entries (44 transactions); and budgetary reversions, reversals, and other entries made for the State's Comprehensive Annual Financial Report (CAFR) (41 transactions). Our audit tests disclosed that the Bureau had not established appropriate controls to ensure that sufficient documentation was always maintained to support accounting transactions or to ensure that transactions were timely and correctly entered in FLAIR. Specifically, we found that:

- The Bureau could not locate documentation supporting 21 transactions with cumulative absolute values of \$1,744,459,423. These transactions included transfers, accounts payable, and correcting entries.

⁵ Section 216.141(3), Florida Statutes.

⁶ OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs.

- For 22 transactions with cumulative absolute values of \$221,066,666, although some documentation was available, the documentation did not fully support the transactions or demonstrate supervisory review and approval of the transactions. Specifically:
 - The Bureau could not provide, for a \$186,957,415 expenditure transfer, documentation that supported the amounts allocated to individual appropriation categories or evidenced supervisory review and approval of the transfer. According to Bureau management, the transfer was made to reverse Medicaid Program expenditures for medical services that had been paid from a limited number of special appropriation categories and then reallocate the expenditures among numerous special appropriation categories.
 - For 13 correcting entries with cumulative absolute values of \$29,736,033, the Bureau could not provide documentation to support the calculation of the amount of either the original entry or the correcting entry or evidence of supervisory review and approval of the entries. The correcting entries included, but were not limited to, corrections of revenue transactions and corrections to entries made at year-end for the State's CAFR.
 - For 4 transactions totaling \$2,733,215, the Bureau established accounts payable for contractual services at year-end but was unable to provide documentation demonstrating that the Agency had incurred obligations for the amounts of the payables established.
 - For the other 4 transactions with cumulative absolute values of \$1,640,003, the Bureau could not provide supporting documentation such as evidence of an analysis supporting a transfer amount or the date contractual services were provided.
- The Bureau made a correcting entry transaction for \$23,748,865 to reverse a previous transaction recording revenue received from the Department of Financial Services (DFS)⁷ into the Agency's Tobacco Settlement Trust Fund. Our further analysis of all entries made by the Bureau to record the \$156 million received from the DFS into the Tobacco Settlement Trust Fund for the 2013-14 fiscal year disclosed that, due to a series of incorrect entries, reversals, and correcting entries, the revenue balance in the Agency's Tobacco Settlement Trust Fund was significantly understated for the majority of the fiscal year. Specifically, the revenue recorded to the Agency's accounting records between July 2013 and March 2014 ranged from \$15.4 million to \$47.6 million less than the actual amount of moneys received. As a result, Agency management could not rely on the accounting records during this period to determine the amount of funds available in the Tobacco Settlement Trust Fund for disbursement for the Medicaid and Florida KidCare Programs.
- The Bureau did not make a correcting entry transaction for \$142,636,037 until approximately 8 months after the original entry. This correcting entry related to a cash draw originally coded to an incorrect budget entity and, according to Agency management, the error was not detected until "end of year clean up."
- The Bureau incorrectly recorded in FLAIR the transaction dates for 7 expenditure transactions, totaling \$1,773,410. State law⁸ requires that State agencies record all invoices received in FLAIR, approve the invoices for payment, and file the invoices with the State's Chief Financial Officer (CFO) no later than 20 days after receipt of the invoice and receipt, inspection, and approval of the goods or services, except in case of a bona fide dispute. Pursuant to State law, the approval and inspection of the goods or services is to take no longer than 5 working days. If a warrant in payment of an invoice is not issued within 40 days after receipt of the invoice, State law⁹ requires the agency to pay interest to the vendor on the unpaid balance. The DFS issued guidance¹⁰ specifying that, in the FLAIR Transaction Date field, State agencies are to record the later of the

⁷ Section 17.41, Florida Statutes, provides that amounts received by the State related to the settlement of *State of Florida v. American Tobacco Co.*, No 95-1466AH (Fla. 15th Cir. Ct. 1996), be deposited into the DFS Tobacco Settlement Clearing Trust Fund. State law further provides that the DFS transfer funds from the Tobacco Settlement Clearing Trust Fund to the tobacco settlement trust funds of various agencies in amounts equal to the appropriations designated in the General Appropriations Act. For the 2013-14 fiscal year, appropriations totaling approximately \$156.7 million were designated for the Agency's Tobacco Settlement Trust Fund.

⁸ Section 215.422(1), Florida Statutes.

⁹ Section 215.422(3)(b), Florida Statutes.

¹⁰ CFO Memorandum No. 1 (2013-14) and No. 10 (1989-90).

date the goods or services were received, inspected, and approved, or the date the invoice was received. For advance payments, State agencies were to record all zeroes in the Transaction Date field. The DFS uses the Transaction Date field to monitor State agency compliance with the statutory prompt payment requirements and to identify those transactions for which an agency would be required to pay interest. We noted that, for two advance payments, the Bureau recorded actual dates rather than zeroes in the Transaction Date field. For the other 5 transactions, the transaction dates recorded by the Bureau ranged from 1 to 112 days (an average of 29 days) later than the transaction dates supported by Agency documentation. Had the Bureau correctly recorded the transaction date for 4 of these 5 transactions, the Agency would not have complied with the prompt payment requirements. The dates recorded by the Bureau for each of the 4 transactions related to inspection dates that exceeded the 5 working days allowed by law. Without accurate transaction dates, instances of noncompliance with prompt payment requirements may not be identified by the DFS and the Agency may not make required interest payments.

In response to our audit inquiries, Bureau management indicated that the accounting transaction documentation and recording issues we noted were largely due to staff turnover and lack of staff training. Incorrect and untimely recording of accounting transactions affects the reliability of Agency financial records and reports. Further, the lack of supporting documentation for FLAIR entries limits the Agency's ability to demonstrate compliance with State laws and Federal regulations.

Recommendation: We recommend that Bureau management ensure that sufficient documentation is maintained to support the amount, purpose, timeliness, and approval of all Agency accounting transactions. We also recommend that Bureau management take appropriate actions to improve the accuracy and timeliness of FLAIR accounting transactions. Such actions should include enhancing Bureau policies and procedures to promote the proper recording of accounting transactions and to provide for the thorough scrutiny of transactions and support during the approval process. In addition, Bureau management should ensure that Bureau staff receive the training necessary to fully implement the enhanced policies and procedures.

Finding No. 3: Fiscal Year-End Closing and Financial Reporting Processes

State law¹¹ requires State agencies to submit to the State's CFO by September 30 of each year, financial and other records necessary for the DFS to prepare the State's CAFR. The State's CAFR includes the audited financial statements, note disclosures, and required supplementary information presenting the State's financial condition at fiscal year-end and results of operations during the fiscal year. To ensure compliance with applicable accounting standards, the DFS issued guidelines and procedures for preparing the records necessary to support the State's CAFR. Those guidelines and procedures contained specific deadlines for agency tasks, including the annual FLAIR closing process and submittal of certain forms to the DFS. For the 2012-13 fiscal year, the Agency's FLAIR closing deadline was August 16, 2013. The DFS guidelines also required each State agency to complete the *Statewide Financial Statements Compliance Checklist*, attesting that the agency's financial records were appropriately balanced and the various forms had been submitted to the DFS as required. To comply with the requirements of OMB Circular A-133, State agencies are also required to submit data for the State's *Schedule of Expenditures of Federal Awards* (SEFA), which presents the amounts of Federal awards expended by the State during each fiscal year. For the 2012-13 fiscal year, the DFS established September 13, 2013, as the deadline for all agencies to submit SEFA data to the DFS.

As part of our audit, we examined the Bureau's controls and activities related to the 2012-13 fiscal year-end FLAIR closing process. Our audit procedures disclosed that the Bureau's year-end closing process was not sufficient to ensure that the Agency's financial records were accurate and complete when submitted to the DFS. Specifically:

¹¹ Section 216.102(1), Florida Statutes.

- The Bureau timely closed the Agency's FLAIR accounts and submitted financial account balances and forms to the DFS by the September 30 statutory deadline. However, the Agency's account balances required adjustments after the September 30 deadline that were significant both in number and amount. The adjustments were necessary to prevent material misstatements in the related fund and account balances in the State's CAFR. Specifically, there were 16 adjustments, totaling approximately \$4 billion, to the Agency's revenues and expenditures and related accrual accounts. Most of the adjustments were required because Bureau staff had been unable to calculate the correct account balances by the September 30 deadline. Other adjustments were needed because Bureau staff had either inadvertently omitted necessary entries or had previously made incorrect adjusting entries.
- The late posting of adjustments to the Agency's expenditure account balances necessitated a corresponding late adjustment, totaling approximately \$49 million, to the Agency's SEFA data 126 days after the September 13, 2013, SEFA data submission deadline.

In response to our audit inquiries, Bureau management indicated that the financial reporting issues we noted were caused by turnover in key Bureau supervisory personnel and staff just before the year-end closing and preparation of the financial statements. Bureau management also indicated that improvements in Bureau policies and procedures and staff training were in progress.

Absent sufficient written policies and procedures and staff training related to the year-end closing and financial statements preparation process, the risk is increased that the Agency's fiscal year-end financial records will not be accurate, complete, and timely reported to the DFS in accordance with generally accepted accounting principles, DFS guidance, and other State and Federal requirements. Additionally, inaccurate and incomplete financial records may result in errors in the Federal awards expenditure data reported on the SEFA.

Recommendation: We recommend that Bureau management continue efforts to enhance the policies and procedures for the year-end closing and preparation of financial statements. Additionally, we recommend that Agency management provide sufficient training and guidance to Bureau staff to ensure accurate, complete, and timely financial reporting, in compliance with applicable accounting standards and State and Federal requirements.

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 January 2014 through June 2014 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 Agency's financial management controls and activities of the Bureau of Financial Services (Bureau). 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 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, regulations, and Agency policies and procedures and interviewed Agency personnel to gain an understanding of the Bureau's operations.
- Interviewed Bureau management and staff, obtained an understanding of Bureau internal controls, and evaluated the design of Bureau processes and policies and procedures.
- Interviewed Agency human resources personnel to obtain an understanding of Agency controls for the hiring and training of employees and the sufficiency of staffing for the accounting and budgeting functions.
- Reviewed personnel and training records for 17 Bureau employees to evaluate whether the employees responsible for accounting and budgeting functions had appropriate levels of education and experience and had received appropriate training.
- Reviewed personnel records for 17 Bureau employees to determine the amount of time the employees had been employed with the Agency and assigned to their current position and assessed the impact, if any, the employee's length of employment and experience within their position had on the efficiency and effectiveness of the Agency's accounting and budgeting functions.
- Analyzed Bureau staffing levels for the period July 2012 through February 2014 to assess the extent to which turnover and vacancies may have impacted the efficiency and effectiveness of the Agency's accounting and budgeting functions.

- Performed inquiries, conducted analytical procedures, reviewed personnel staffing reports, and reviewed the Bureau's organizational chart at December 2013 to assess whether the number of employees assigned to each supervisor appeared reasonable to maintain an adequate level of supervision.
- Performed inquiries, observations, and reviewed the Agency's 2012-13 and 2013-14 *Long-Range Program Plans*, 2012-13 and 2013-14 fiscal year *Legislative Budget Requests*, 2012-13 fiscal year appropriations documentation, budgetary reports for tracking and aligning expenditures and revenues for the 2012-13 fiscal year, and other documentation supporting the Agency's assumptions and data for budget forecasting for the 2012-13 fiscal year to assess if the budget process controls in place were sufficient to ensure compliance with applicable State laws.
- Analyzed 2012-13 fiscal year fund balance, appropriations, operating budget, expenditure, and estimated and actual revenue data to identify any significant fluctuations and assessed the reasonableness of the explanations for the fluctuations.
- Analyzed 2012-13 fiscal year Agency budgetary transfer data to identify significant fluctuations and assessed the reasonableness of the explanations for the transfers.
- Analyzed Agency cash balance records for the 2012-13 fiscal year to determine if the Agency's cash management process was sufficient to ensure that cash balances met the Agency's daily cash needs.
- Reviewed 2012-13 fiscal year Agency financial records for entities receiving cash advances from the Agency to determine if interest earnings were appropriately reported and if subsequent payments were offset by the advances made.
- Reviewed the Agency's 2012-13 fiscal year Indirect Cost Proposal to determine if it was accurate, properly supported, and prepared in accordance with Federal regulations.
- Performed inquiries and inspected documents related to the Agency's process for reporting delinquent accounts for the 2012-13 fiscal year to determine if the Agency complied with DFS guidelines and the requirements of State law.
- Reviewed supporting documentation and evaluated the Agency's methodology and processes for collecting delinquent receivables and identifying and recording write-offs for uncollectable accounts.
- Performed inquiries and inspected documents for 10 accounts, totaling \$3,839,395, written off as uncollectable and approved by the DFS for the 2012-13 fiscal year to determine whether the accounts were accurately identified and supported by documentation, approved by management, written-off in a timely manner, and accurately recorded in the financial records.
- Reviewed Agency procedures and checklists for the 2012-13 fiscal year-end closing and financial statements preparation processes to determine if the procedures and checklists were sufficient to ensure accurate, complete, and timely financial reporting and compliance with applicable State and Federal laws, rules, and regulations, and DFS guidance.
- Analyzed the 2012-13 fiscal year-end adjusting entries made by the Agency to assess the number, amount, and type of adjustments.
- Examined documentation for 21 adjusting entries, made subsequent to the 2012-13 fiscal year end, to determine if the entries were recorded timely and if the adjustments were supported and appeared reasonable.
- Determined whether financial transactions, for the period July 2012 through December 2013, were timely, adequately documented, made in accordance with applicable laws and regulations, and properly authorized by examining:
 - Documentation for 44 correcting entry transactions with cumulative absolute values of \$1,635,684,988.
 - Documentation for 35 expenditure transactions totaling \$10,768,423.
 - Documentation for 24 accounts payable transactions totaling \$14,347,826.
 - Documentation for 25 revenue transactions totaling \$3,014,802,725.

- Documentation for 16 indirect cost allocation transfer transactions with cumulative absolute values of \$4,225,141.
 - Documentation for 36 transfer transactions, including due to and due from transactions, with cumulative absolute values of \$1,605,689,055.
 - Documentation for 28 cash and expenditure transfer transactions with cumulative absolute values of \$1,722,495,830.
 - Documentation for 41 transactions, with cumulative absolute values of \$4,988,086,590, for recording reversions, reversals, and other transactions related to the close out of Agency financial records for the 2011-12 and 2012-13 fiscal years.
- Analyzed Agency records for transfer transactions, with cumulative absolute values of \$14,960,000,076, including interagency and due to and due from transactions, and cash and expenditure transfers, with cumulative absolute values of \$131,825,734,482, made during the period July 2012 through December 2013 to identify and assess the reasons for any significant fluctuations. Also, reviewed Agency documentation for reconciling interagency transfers for the same time period to determine if the Agency performed periodic reconciliations of interagency transfers, including due to and due from transactions.
 - Analyzed Agency records for correcting entry transactions, with cumulative absolute values of \$2,724,213,141, made during the period July 2012 through June 2013 to assess the amount and number of significant transactions and to determine whether correcting entries were consistently made to certain account types and classifications.
 - Analyzed Agency records for accounts payable transactions, totaling \$61,033,287, made during the period July 2012 through December 2013 to identify any significant fluctuations and assessed the reasonableness of the explanations for the fluctuations.
 - Performed inquiries, observed the activities of revenue collection personnel, and reviewed Agency procedures to evaluate the adequacy of Agency revenue collection controls.
 - Performed inquiries and reviewed revenue, expenditure, and Agency budgetary reports for the period July 2012 through June 2013 to determine if the Agency's revenue and expenditure tracking process provided an accurate reflection of the Agency's financial position, provided management sufficient information to ensure expenditures complied with applicable laws and to make appropriate adjustments, and evaluated whether the reports were supported by adequate data, assumptions, and analyses to provide management with the accurate information needed to appropriately forecast the Agency's budget.
 - Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing Agency operations.
 - Performed inquiries, inspected documents, and conducted analytical procedures related to Agency purchasing card expenditures, totaling \$1,150,356 and \$821,591 for the 2011-12 and 2012-13 fiscal years, respectively, to evaluate the Agency's procedures for issuing and using purchasing cards.
 - Performed inquiries, inspected documents, and conducted analytical procedures related to Agency expenditures for wireless communications and other devices, totaling \$104,109 and \$196,354 for the 2011-12 and 2012-13 fiscal years, respectively, to determine if the Agency had established appropriate controls for the assignment and use of wireless devices.
 - 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.

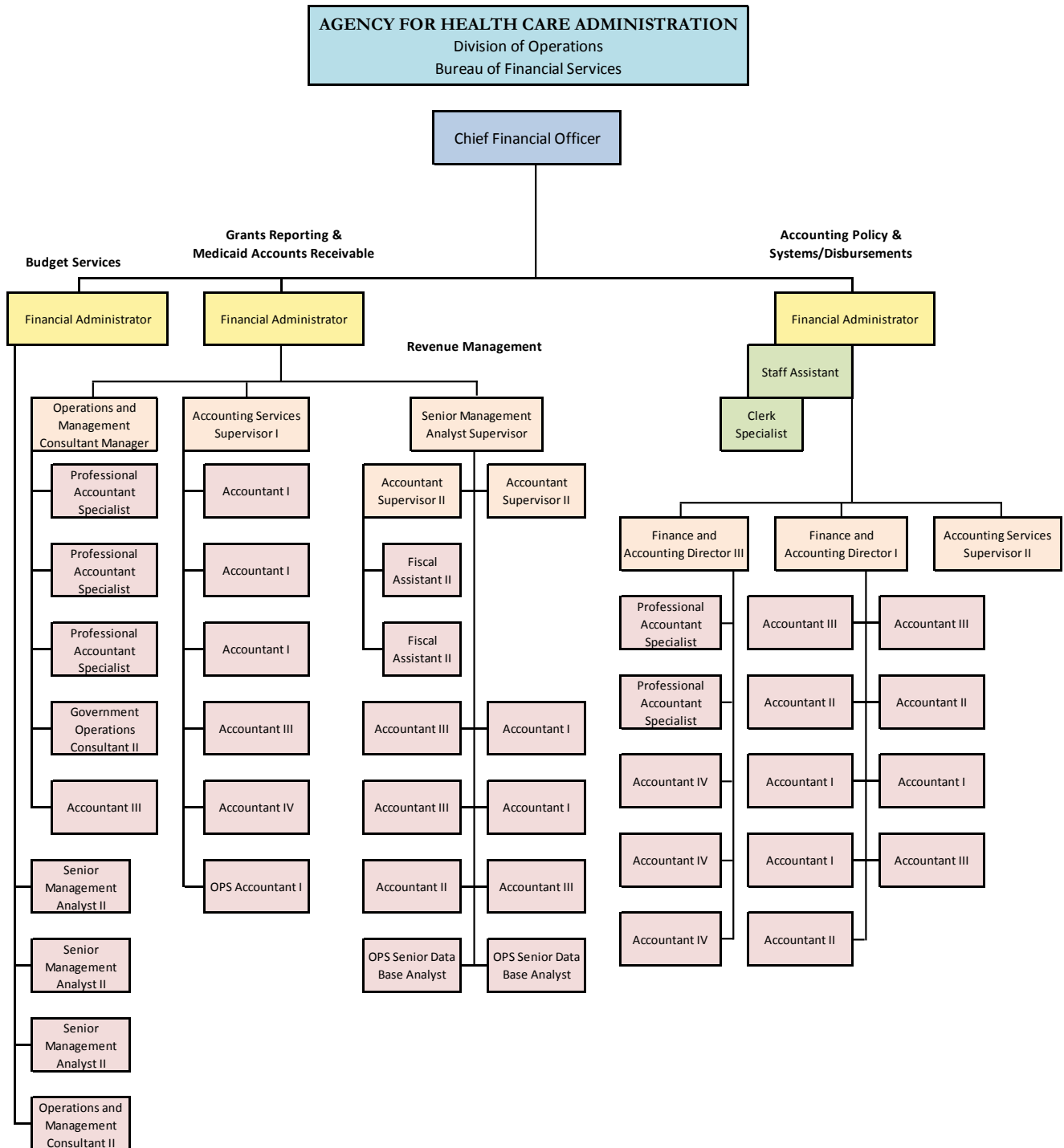


David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated November 14, 2014, the Secretary of the Agency provided a response to our audit findings and recommendations. The Secretary's response is included as **EXHIBIT B**.

EXHIBIT A
BUREAU OF FINANCIAL SERVICES ORGANIZATIONAL CHART AT DECEMBER 2013



Source: Agency records.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



RICK SCOTT
GOVERNOR

ELIZABETH DUDEK
SECRETARY

November 14, 2014


Mr. David W. Martin
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Thank you for the opportunity to respond to the preliminary and tentative findings and recommendations from your Agency for Health Care Administration, Financial Management operational audit. In accordance with your request, we have emailed you the preliminary and tentative audit findings document with our response incorporated therein.

If you have any questions regarding our response, please contact Mary Beth Sheffield, Audit Director, at 412-3978.

Sincerely,


Elizabeth Dudek
Secretary

ED/szg
Enclosure

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EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Agency for Health Care Administration
Auditor General 2014 Operational Audit - Financial Management
Response to Preliminary and Tentative Audit Findings and Recommendations

Finding No. 1:

The Bureau had not established sufficiently comprehensive policies and procedures or developed a Bureau-specific training program to ensure that staff were provided appropriate guidance and training related to the Agency's complex accounting and budgeting tasks.

Recommendation:

We recommend that Bureau management enhance existing policies and procedures to ensure that the Bureau's responsibilities and unique operations are sufficiently addressed. The enhanced policies and procedures should promote compliance with applicable laws, rules, regulations, and accounting standards, and provide sufficient guidance to staff to ensure consistency in the event of staff turnover. In addition, we recommend that Bureau management develop a staff training program that is specifically tailored to address the complexity of the Agency's financial operations and that Bureau management consider revising the Bureau's position descriptions to specify the relevant education and experience needed to perform the Agency's complex accounting and budgeting tasks.

Agency Response:

The Bureau routinely provides staff with on the job training opportunities, which could include one member of the staff imparting knowledge that would assist another member with an assignment. However, at the time of this audit period, the Bureau was not maintaining a log. A training log has since been implemented to document training.

The Bureau has initiated a policy and procedures review and will include references to applicable laws, rules, regulations, and accounting standards in our final document as another method of ensuring that staff fully understands the background as to why procedures are performed in a specific manner. However, the fact that the policy and procedures manual did not reference applicable laws, rules, regulations, and accounting standards does not mean that staff were not aware or made aware of the applicable laws, rules, regulations, and accounting standards related to their job responsibilities. The staff is also provided guidance and instructions through verbal communication such as staff meetings, one-on-one meetings, and topic specific workshops.

When the State adopted a broadband classification system, there were no longer specific minimum education and experience requirements for a particular position title. Therefore, the Agency allows each hiring manager to set the standard for their positions based upon the need of their section; thus, setting the required knowledge, skills, and abilities for each position. In an effort to select and hire the best candidate, the Bureau's selections are based upon work experience, education, work sample (when applicable), face-to-face interviews, and reference checks. In addition, the Bureau uses a selection committee to conduct the first level interview. The committee is normally comprised of the hiring manager and another staff member from the Bureau with knowledge of the area hiring the applicant. The selection committee develops specific questions to assess the knowledge, skills, and abilities of the candidate. There are normally two or three rounds of interviews to make sure the best candidate is selected. However, no single minimum requirement for hiring a position can guarantee the selection of a perfect candidate. Currently, there are 47 established full-time positions in the Bureau, and 10 (or 21.28 percent) of staff members have a degree. It has been the experience of the Bureau that when staff members with a degree are hired in positions in a pay grade 18 or below, the Bureau is unable to retain staff members due to the pay for those positions.

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EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Agency for Health Care Administration
Auditor General 2014 Operational Audit - Financial Management
Response to Preliminary and Tentative Audit Findings and Recommendations

Finding No. 2:

The Bureau had not established appropriate controls to ensure that sufficient documentation was always maintained to support accounting transactions or to ensure that transactions were timely and correctly entered in the State's accounting system.

Recommendation:

We recommend that Bureau management ensure that sufficient documentation is maintained to support the amount, purpose, timeliness, and approval of all Agency accounting transactions. We also recommend that Bureau management take appropriate actions to improve the accuracy and timeliness of FLAIR accounting transactions. Such actions should include enhancing Bureau policies and procedures to promote the proper recording of accounting transactions and to provide for the thorough scrutiny of transactions and support during the approval process. In addition, Bureau management should ensure that Bureau staff receives the training necessary to fully implement the enhanced policies and procedures.

Agency Response:

The Bureau has initiated a committee to review the documentation process. The committee will develop a procedure to ensure appropriate documentation is maintained to support the amount, purpose, timeliness, and approval of all Agency accounting transactions.

The Bureau began using a new automated FLAIR reconciliation system in June of 2014. With the automated system, the Bureau is able to provide reconciling items to the Bureau supervisors within 5 workdays of closing each month. As a result of implementing the automated system, policies are currently in place to ensure and verify that pending reconciliation items are reviewed and corrected in a timely manner.

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Finding No. 3:

The Bureau's year-end closing process needs enhancement to ensure timely, accurate, and complete financial reporting in compliance with applicable accounting standards and State and Federal requirements.

Recommendation:

We recommend that Bureau management continue efforts to enhance the policies and procedures for the year-end closing and preparation of financial statements. Additionally, we recommend that Agency management provide sufficient training and guidance to Bureau staff to ensure accurate, complete, and timely financial reporting, in compliance with applicable accounting standards and State and Federal requirements.

Agency Response:

The Bureau will continue to enhance the year-end closing and preparation of financial statements process. Training of staff for year-end responsibilities was implemented last fiscal year and will continue to be performed annually. This training will be documented on the implemented training log. Procedures will be reviewed to ensure best practices are used during the initiated policy and procedure review.

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