

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

**DEPARTMENT OF
ECONOMIC OPPORTUNITY**

Workforce Services Monitoring
and Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

Executive Director of the Department of Economic Opportunity

The Department of Economic Opportunity is established by Section 20.60, Florida Statutes. The head of the Department is the Executive Director who is appointed by the Governor and subject to confirmation by the Senate. Jesse Panuccio served as Executive Director during the period of our audit.

The team leader was Aaron Franz, CPA, and the audit was supervised by Christi Alexander, CPA.

Please address inquiries regarding this report to Christi Alexander, CPA, Audit Manager, by e-mail at christialexander@aud.state.fl.us or by telephone at (850) 412-2786.

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DEPARTMENT OF ECONOMIC OPPORTUNITY

Workforce Services Monitoring and Prior Audit Follow-Up

SUMMARY

This operational audit of the Department of Economic Opportunity (Department) focused on the Department's monitoring of the State's workforce services, and also included a follow-up on the findings noted in our report No. 2014-041. Our audit disclosed the following:

Finding 1: Department controls for monitoring regional workforce boards need enhancement.

Finding 2: As similarly noted in our report No. 2014-041, Department controls for the administration of the requirements of the Florida Single Audit Act need improvement.

BACKGROUND

State law¹ specifies that the Department of Economic Opportunity (Department) is to assist the Governor in working with the Legislature, State agencies, business leaders, and economic development professionals to formulate and implement coherent and consistent policies and strategies designed to promote economic opportunities for all Floridians. To execute these responsibilities, the Department is organized into five divisions: the Division of Strategic Business Development, the Division of Community Development, the Division of Workforce Services, the Division of Finance and Administration, and the Division of Information Technology.² The Legislature appropriated to the Department \$1.12 billion, including funds for 1,619.50 positions, and \$1.13 billion, including funds for 1,618.50 positions, for the 2014-15 and 2015-16 fiscal years, respectively.

FINDINGS AND RECOMMENDATIONS

Finding 1: Monitoring of Regional Workforce Boards

The State's workforce system (the CareerSource Florida network) includes the Department, CareerSource Florida, Inc. (CSF),³ the State's workforce investment board, 24 regional workforce boards (RWBs) that serve as local workforce investment boards, and nearly 100 local service providers directed by the RWBs. In addition to the duties and functions specified by CSF and any interlocal agreement, the RWBs are, among other things, responsible for:

- Providing ongoing oversight related to administrative costs, duplicated services, career counseling, economic development, equal access, compliance and accountability, and performance outcomes.

¹ Section 20.60(4), Florida Statutes.

² Section 20.60(3), Florida Statutes.

³ CareerSource Florida, Inc. is a not-for-profit corporation administratively housed within the Department and the principal workforce policy organization for the State.

- Overseeing the one-stop delivery system⁴ in their local area.
- Designating all local service providers.

A RWB may also be designated as a one-stop operator and direct provider of intake, assessment, eligibility determination, or other direct provider services, except training services. Department expenditures related to RWB activities totaled approximately \$275.1 million during the 2014-15 fiscal year, of which, approximately \$274.5 million related to Federally funded programs.

In accordance with the Federal Workforce Innovation and Opportunity Act and applicable Federal regulations which require the State to monitor recipients of Federal funds, the Department performed both fiscal and programmatic monitoring of the RWBs. The Division of Finance and Administration, Bureau of Financial Monitoring and Accountability (FMA), was responsible for fiscal monitoring of the RWBs. Pursuant to FMA procedures, the annual fiscal monitoring review of each RWB was to consist of an on-site visit during a selected quarter and desk reviews during the other three quarters of the fiscal year. As part of the desk reviews and on-site visits, FMA staff were, among other things, to perform risk assessments to determine the extent of planned testing, complete financial monitoring tools, prepare monitoring reports, and review and approve corrective action plans submitted by the RWBs. FMA staff were to compile the three quarterly reviews and the on-site visit into a final report that conveyed all findings, noncompliance issues, and observations, as well as technical assistance provided.

The Division of Workforce Services, Bureau of One Stop and Program Support (OSPS), was responsible for the programmatic monitoring of the RWBs. Annual programmatic monitoring consisted of one on-site visit to each RWB. OSPS procedures specified that, as part of each on-site visit, staff were to determine the number of participant cases to be reviewed, complete monitoring tools, hold an exit conference with RWB staff to discuss any relevant issues noted during the review, and provide the RWB with a written report summarizing findings, other noncompliance issues, observations, and notable best practices identified and discussed during the review, as well as any corrective actions that may be required.

During the period July 2013 through February 2015, FMA staff completed one annual fiscal monitoring review for each of the 24 RWBs, and OSPS staff completed 30 on-site programmatic monitoring reviews. As part of our audit, we examined Department records for 5 annual fiscal monitoring reviews and 6 on-site programmatic monitoring reviews to determine whether the Department adequately and timely monitored the RWBs' delivery of workforce services in compliance with applicable laws, regulations, guidelines, and grant agreement requirements. Our examination disclosed that:

- For 2 fiscal monitoring reviews, FMA staff did not provide responses to all monitoring tool evaluation criteria. In response to our audit inquiry, Department management indicated that FMA staff had overlooked the monitoring tools' evaluation criteria.
- For 1 fiscal monitoring review, the final report included a time reporting issue that was pending further research. In response to our audit inquiry, Department management indicated that the issue had been resolved through verbal discussions with the RWB and, consequently, no documentation to support the appropriateness of the resolution was available for our review.
- For 3 programmatic monitoring reviews, the total number of participant cases reviewed by OSPS staff did not agree with the total number of cases selected for review and Department records did

⁴ The one-stop delivery system is the State's primary customer service strategy for offering Floridians access to services such as job search, referral, and placement assistance, and career counseling and educational planning.

not evidence the basis for not reviewing all selected cases. In response to our audit inquiry, Department management indicated that OSPS staff oversight contributed to the planned number of cases not being reviewed.

- For 5 programmatic monitoring reviews, exceptions were noted to monitoring tool criteria; however, the exceptions were omitted from the exit conferences with the RWBs and final monitoring reports. In response to our audit inquiry, Department management indicated that OSPS staff had erroneously marked criteria as exceptions in the monitoring tools and, in some cases, had not revised responses to the monitoring tool criteria when deficiencies were resolved prior to issuing the final monitoring report.
- For 1 programmatic monitoring review, exceptions were noted to monitoring tool criteria and discussed as part of the exit conference with the RWB; however, the deficiencies were omitted from the final monitoring report. In response to our audit inquiry, Department management indicated that the deficiencies had been resolved during the review; however, the resolution of the deficiencies was not documented within Department monitoring records.

In addition, our comparison of FMA and OSPS monitoring tools to the standard RWB grant agreement disclosed instances where the monitoring tools did not include evaluation criteria for all grant agreement requirements. Specifically, the monitoring tools did not include evaluation criteria for determining whether the RWBs:

- Performed and maintained documentation of background screenings of RWB employees, contractors, subcontractors, and agents with access to, and the ability to change or destroy confidential data, including data stored in the information systems used by workforce service providers to manage and report participant information.
- Obtained and maintained signed *Individual Non-Disclosure and Confidentiality Certification Forms* from security officers, staff, contractors, subcontractors, and any subsequent subcontractors and their employees or agents who had access to confidential information.
- Maintained the proper levels of liability insurance coverage.
- Had, as part of a risk mitigation strategy, a continuity of operations plan.

In response to our audit inquiry, Department management indicated that they considered the RWB's signing of the grant agreement as assurance that the RWB's complied with grant agreement requirements. Additionally, the Department's Office of the Inspector General initiated information security audits of the RWBs in April 2015 that included a review of confidential access and data sharing forms and agreements. Notwithstanding this response, periodic reviews of the RWBs' compliance with the grant agreement requirements is necessary to ensure continuing compliance and demonstrate appropriate oversight.

Properly conducted and adequately documented monitoring reviews provide assurance that the RWBs are complying with applicable laws, regulations, guidelines, and grant agreement requirements. Additionally, improved documentation of monitoring reviews would better demonstrate accountability and consistency and promote accurate and complete reporting of monitoring results.

Recommendation: We recommend that Department management ensure that monitoring reviews are properly conducted and adequately documented in accordance with established procedures. In addition, we recommend that Department management enhance monitoring tools to include an evaluation of RWB compliance with all grant agreement requirements.

Finding 2: Florida Single Audit Act

State Financial Assistance (SFA) is financial assistance provided from State resources to non-State entities to carry out a State project and is to be administered in accordance with the requirements of the Florida Single Audit Act (FSAA),⁵ Department of Financial Services (DFS) rules,⁶ and Rules of the Auditor General.⁷ The purpose of the FSAA, among other things, is to establish uniform State audit requirements of non-State entities receiving SFA; promote sound management of SFA; and ensure State agency monitoring, use, and follow-up on audits of SFA.

The Catalog of State Financial Assistance (CSFA) lists State projects by assigned CSFA numbers and assists users (e.g., SFA recipients and auditors) in obtaining general information on State projects (e.g., State project title and legal authorization). DFS rules⁸ require that, whenever a non-State entity is determined to be a recipient or subrecipient of SFA, standard audit language be included in the document that established the State's, recipient's, or subrecipient's relationship with the non-State entity. The FSAA also requires that a State awarding agency provide SFA recipients the information necessary to comply with the FSAA. This is to be accomplished through an award agreement that includes language requiring each recipient that expends \$500,000 or more⁹ of SFA in any fiscal year to obtain a State single audit or a project-specific audit conducted by an independent auditor.

In our report No. 2014-041 (finding No. 1), we noted that improvements were needed in the Department's administration of its responsibilities under the FSAA. According to Florida Accountability Contract Tracking System records, the Department executed 130 grant agreements, with SFA awards totaling approximately \$91 million, during the period November 2013 through February 2015. As part of our audit follow-up procedures, we examined documentation related to 10 grant agreements, totaling approximately \$30 million, and found that for 5 grant agreements, totaling approximately \$4.5 million, the Department did not notify the recipients of all applicable State project information, such as the CSFA number or State project title.

In response to our audit inquiry, Department management indicated that the State project information had been excluded from the grant agreements due to staff oversight. Absent proper recipient notification of FSAA requirements, the Department cannot demonstrate compliance with the FSAA.

Recommendation: We recommend that Department management ensure that required FSAA information is incorporated into each SFA agreement.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the findings included in our report No. 2014-041.

⁵ Section 215.97, Florida Statutes.

⁶ DFS Rules, Chapter 69I-5, Florida Administrative Code.

⁷ Chapters 10.550 and 10.650, Rules of the Auditor General.

⁸ DFS Rule 69I-5.006, Florida Administrative Code.

⁹ Pursuant to Chapter 2016-132, Laws of Florida, effective July 1, 2016, the amount is \$750,000 or more.

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 2015 through August 2015 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 monitoring of the State's workforce services by the Department of Economic Opportunity (Department). 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.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies noted in our report No. 2014-041.

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 contract, 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 our 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, Department policies and procedures, guidelines, and grant agreements, and interviewed Department personnel to gain an understanding of Department controls for State workforce services monitoring activities.
- Compared Department fiscal and programmatic monitoring tools for the State's regional workforce boards (RWBs) to the Department's standard RWB grant agreement and the United States Office of Management and Budget's *Circular A-133 Compliance Supplement* to determine whether Department monitoring tools incorporated evaluation criteria for all grant agreement and Federal program requirements.
- Evaluated the sufficiency of the Department's fiscal and programmatic monitoring of CareerSource Florida, Inc. (CSF) and the RWBs, conducted during the period July 2013 through February 2015, by examining documentation related to:
 - Fiscal monitoring of CSF for the 2013-14 fiscal year.
 - The Florida Single Audit Act (FSAA) review of CSF for the 2013-14 fiscal year.
 - 5 of the 24 annual fiscal monitoring reviews of the RWBs completed during the period July 2013 through February 2015.
 - 6 of the 30 on-site programmatic monitoring reviews of the RWBs completed during the period July 2013 through February 2015.
- Analyzed financial data from the Department's One-Stop Management Information System and reviewed the Department's Temporary Assistance for Needy Families - Administration for Children and Families 196 Financial Report and related supporting documentation, for the Federal fiscal year ended September 30, 2014, to determine whether:
 - The Department monitored funds allocated to the RWBs to ensure that RWB expenditures for administrative activities were reasonable or did not exceed applicable program limits.
 - The Department monitored Workforce Investment Act (WIA) Adult and Dislocated Worker funds to ensure that the RWBs expended 50 percent or more of the funds on individual training accounts, pursuant to Section 445.003, Florida Statutes.
- Obtained and reviewed the Department's *2013-14 Annual Report* to determine whether the report was submitted to the Legislature by November 1, 2014, and included Department-established performance standards for CSF, pursuant to Section 20.60, Florida Statutes.
- Examined three of the six WIA quarterly performance reports (*ETA Form 9090*) and related transmittal documentation submitted by the Department to the United States Department of Labor, Employment and Training Administration (USDOL-ETA), during the period July 2013 through February 2015, to determine whether the Department monitored RWB performance in accordance with applicable Federal laws and regulations.

- Reviewed five RWB *Performance Overviews* for the 2013-14 fiscal year to determine whether the Department met with the RWBs annually to review RWB performance and to certify that the RWB was in compliance with applicable State and Federal laws.
- Reviewed the Department's analysis of RWB WIA Core Performance Measures for the 2012-13 and 2013-14 fiscal years, and documentation supporting the Department's corrective actions for RWBs that did not meet 80 percent of the negotiated performance measures, to determine whether the Department provided technical assistance or took appropriate action. Specifically:
 - For three of eight RWBs with performance for a negotiated measure under 80 percent for the 2013-14 fiscal year, we determined whether the Department provided technical assistance.
 - For two RWBs with performance for a negotiated measure under 80 percent for the 2012-13 and 2013-14 fiscal years, we determined whether the Department took corrective action, such as requiring training or imposing monetary sanctions.
- Reviewed the Department's *WIA Annual Report for the 2013-14 Program Year* to determine whether the report was submitted to the USDOL-ETA by November 14, 2014, and included the performance information required by Federal laws and regulations.
- Examined documentation supporting the Department's annual WIA data validation process due to the USDOL-ETA by February 1, 2015, to determine whether the validation was adequately documented, performed timely, and any adverse issues noted during the validation were communicated to the RWBs in accordance with applicable Federal laws and regulations.
- Compared RWB participant case files to Department data validation sheets for 25 of the 1,630 cases to determine whether the data validation results reported by the Department to the USDOL-ETA were accurate.
- Evaluated Department actions taken to correct the findings noted in our report No. 2014-041. Specifically, we:
 - Selected and examined 10 agreements, totaling \$29,944,062, from the population of 130 grant agreements totaling \$91,103,617 and executed during the period November 2013 through February 2015, to determine whether the agreements included the information specified by the FSAA, Department of Financial Services (DFS) rules, Rules of the Auditor General, and Department policies and procedures.
 - Reviewed Department documentation related to ten State Financial Assistance recipients required to provide a Financial Reporting Package (FRP) or *Audit Compliance Certification* form during the period January 2014 through February 2015 to determine whether the Department timely obtained and reviewed the FRPs or *Audit Compliance Certification* forms in accordance with applicable laws, rules, and Department policies and procedures.
 - Reviewed Department policies and procedures and forms and evaluated Department compliance with applicable statutory requirements for collecting and utilizing individuals' social security numbers.
 - Examined 18 service invoices and supporting payment documentation related to wireless devices assigned to eight Department employees during the period July 2013 through February 2015 to determine whether:
 - The invoices had been reviewed by the employees and Department management for the appropriateness of usage charges.
 - The documentation included sufficient detail for an effective preaudit and to identify an employee's personal usage.
 - Department employees correctly reimbursed the Department for any personal use.

- Reviewed training history reports for eight Department employees who utilized wireless devices during the period July 2013 through February 2015 to determine whether the employees received security awareness training.
- Analyzed the Department's tangible personal property records as of February 27, 2015, to determine:
 - For the tangible personal property recorded in the property records after May 31, 2014, whether the Department recorded the information specified by State law and DFS rules.
 - For tangible personal property acquired prior to January 1, 2010, whether the reported condition of the property was other than "new."
- Examined Department records for ten property items, with acquisition costs totaling \$11,340, identified as missing during the period January 2014 through February 2015 to determine whether the Department complied with applicable laws, rules, and Department policies and procedures for reporting and investigating the missing items.
- Reviewed 2014-15 fiscal year property insurance documents to determine whether the Department maintained adequate documentation to support reported insured values.
- Examined Department records for the period December 2013 through February 2015 to determine whether the Department had timely performed FLAIR user access privilege reviews and taken appropriate actions in accordance with Department policies and procedures. Additionally, we examined FLAIR access control records for five employees who separated from Department employment during the period July 2014 through February 2015 to determine whether the access privileges had been timely deactivated.
- Reviewed Office of Inspector General Report No. 2013/14-0070, *LMS Data Security*, to determine whether the Department regularly monitored the effectiveness of relevant information technology security controls for systems used within the Bureau of Labor Market Statistics, in accordance with the Department's agreement with the USDOL.
- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing Department operations.
- Observed, documented, and evaluated the effectiveness of selected Department processes and procedures for:
 - Budgetary, revenue, and cash management activities.
 - The assignment and use of motor vehicles. As of February 27, 2015, the Department had five motor vehicles with acquisition costs totaling \$388,183.
- 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. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

Rick Scott
GOVERNOR



Cissy Proctor
EXECUTIVE DIRECTOR

July 7, 2016

Ms. Sherrill F. Norman, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Enclosed is the Department's response to the preliminary and tentative findings resulting from your Operational Audit of Workforce Services Monitoring. We thank you and your staff for the recommendations designed to enhance our continuing efforts to effectively serve the citizens of our State.

If you have additional questions or needs, please contact Jim Landsberg, Inspector General, at (850) 245-7141.

Sincerely,

Cissy Proctor

CP/tc

Enclosure

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**Florida Department of Economic Opportunity
Response to Preliminary and Tentative Findings:
Operational Audit of Workforce Services Monitoring**

Finding 1: Department controls for monitoring regional workforce boards need enhancement.

Auditor Recommendation: We recommend that Department management ensure that monitoring reviews are properly conducted and adequately documented in accordance with established procedures. In addition, we recommend that Department management enhance monitoring tools to include an evaluation of RWB compliance with all grant agreement requirements.

Department of Economic Opportunity (DEO) Response:

Response prepared by Division of Finance and Administration.

The Bureau of Financial Monitoring & Accountability (FMA) continuously reviews its processes to ensure that financial monitoring reviews of the Local Workforce Development Boards (LWDBs formerly known as RWBs) are properly conducted and adequately documented in accordance with the established monitoring tool and monitoring procedures. FMA management is committed to ensuring all monitoring reviews are properly conducted and adequately documented. FMA will implement a quality review process to ensure all monitoring tool criteria are consistently and adequately addressed, and that outstanding issues are resolved and documented.

Response prepared by Division of Workforce Services.

The programmatic monitoring reviews will continue to ensure that Local Workforce Development Boards are in compliance with all applicable laws, regulations, and guidelines. The Department will strengthen the controls in place to support and verify resolution of issues found during the monitoring reviews when immediate compliance efforts are made by the LWDBs. Additionally, any exceptions to the monitoring review samples, number of files reviewed, and the monitoring tool criteria will be duly noted in either the work paper file or via notes/comments made on the respective document(s). The same will apply when issues are resolved during the 10-day response period and included in the reports as general comments.

The Department will also establish criteria for transitioning DEO and LWDB grant agreement requirements/assurances into the monitoring review process. The evaluation and monitoring criteria developed will include safeguards for determining whether background screenings have been conducted for contract employees, whether Individual Non-Disclosure and Confidentiality Certifications forms have been completed for contract employees, and for ensuring a plan to transition contract employees' privileges and access to DEO systems from the LWDB level to the Department level. Additionally, other contract assurances such as liability insurance coverage and risk mitigation plans will be reviewed as part of the contract approval and signature process

**Florida Department of Economic Opportunity
Response to Preliminary and Tentative Findings:
Operational Audit of Workforce Services Monitoring**

on an annual basis.

Finding 2: As similarly noted in our report No. 2014-041, Department controls for the administration of the requirements of the Florida Single Audit Act need improvement.

Auditor Recommendation: We recommend that Department management ensure that required FSAA information is incorporated into each SFA agreement.

Department of Economic Opportunity (DEO) Response:

As part of DEO's continuous review of its processes and procedures relating to the FSAA requirements, improvements were made to update DEO's Subrecipient agreement templates and relocate the required information to the front of the contracts, effective July 5, 2015. In addition, DEO created a Contract Management Unit within the Purchasing office that would act as the Contract Administrator to ensure the review of all Department contracts for required content.