

DEPARTMENT OF ELDER AFFAIRS

Financial Management Controls
and Selected Administrative Activities



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Auditor General

Secretary of the Department of Elder Affairs

The Department of Elder Affairs is established by Section 20.41, Florida Statutes. The head of the Department is the Secretary who is appointed by the Governor and subject to confirmation by the Senate. During the period of our audit, the following individuals served as Department Secretary:

Samuel P. Verghese	From December 11, 2014
Charles T. Corley	Through December 11, 2014

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

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DEPARTMENT OF ELDER AFFAIRS

Financial Management Controls and Selected Administrative Activities

SUMMARY

This operational audit of the Department of Elder Affairs (Department) focused on financial management controls and selected administrative activities. Our audit disclosed the following:

Contract Management

Finding 1: Department records did not always evidence that a contractor's status as a subrecipient or vendor had been appropriately determined, as required for purposes related to the Federal and the Florida Single Audit Acts, cost analyses prepared for contracts awarded on a noncompetitive basis were supported, or that contract evaluators were free from conflicts of interest.

Finding 2: The Department did not always document that monitoring staff were independent of, and had no conflicts of interest related to, contractors they were assigned to monitor. In addition, Department monitoring records did not always evidence that monitoring reports were subject to supervisory review and approval or that monitoring results were timely communicated to contractors.

Property Controls

Finding 3: The Department did not ensure that a complete annual physical inventory of Department property was conducted or that property records were timely updated for the results. In addition, duties related to Department property were not always properly separated as Department property delegates sometimes inventoried property items for which they were responsible.

Finding 4: The Department did not always document the proper reporting and investigation of property not located during the annual physical inventory, or ensure that property records were appropriately updated based on the results of the annual physical inventory.

Finding 5: The Department did not always timely or accurately update Department property records for property dispositions or timely dispose of property that had been approved for disposal.

Other Administrative Activities

Finding 6: Department controls did not always ensure that expenditures were appropriately supported or approved, expenditure transactions were appropriately coded, or that supporting documents were properly canceled.

Finding 7: The Department did not always document the return of State-owned property from employees separating from Department employment.

BACKGROUND

State law¹ specifies that the Department of Elder Affairs (Department) is to serve as the primary State agency responsible for administering human services programs for the elderly and for developing policy recommendations for long-term care. To execute these responsibilities, the Department is organized into three divisions: the Division of Financial Administration, the Division of Statewide Community-Based Services, and the Division of Internal and External Affairs. The Department also includes the Statewide Public Guardianship Office (SPGO) and administers the State Long-Term Care Ombudsman Program. The Department is headquartered in Tallahassee and has 18 field offices and 13 district offices throughout the State. The field offices administer the Federally mandated pre-admission screening program for nursing home applicants and the district offices provide a Statewide, volunteer-based system of ombudsmen who act as advocates for residents of long-term care facilities.

State law² 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 Division of Financial Administration was responsible for Department administrative functions, including accounting, budgeting, revenue management, contract administration, purchasing, and contract monitoring and quality assurance. The Division's organizational structure is shown in **EXHIBIT A** to this report.

FINDINGS AND RECOMMENDATIONS

CONTRACT MANAGEMENT

In carrying out its statutory responsibilities, the Department procures various goods and services. The Division of Financial Administration, Contract Administration and Purchasing Unit, was responsible for assisting contract managers and other Department staff with acquiring goods and services and developing and executing all Department solicitations and written contracts.

Finding 1: Contract Procurement and Awards

State law³ establishes that fair and open competition is a basic tenet of public procurement and that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. However, State law⁴ also provides certain exemptions to competitive procurement requirements that allow State agencies to procure various services, such as health services, Medicaid services, and services provided by governmental entities, on a noncompetitive basis.

¹ Section 430.03, Florida Statutes.

² Section 215.86, Florida Statutes.

³ Section 287.001, Florida Statutes.

⁴ Section 287.057(3)(e), Florida Statutes.

Federal regulations⁵ require the Department to include in contractual agreements with subrecipients specific information and terms related to the Federal program funds disbursed. Similarly, State law⁶ requires State agencies to provide certain information to recipients of State financial assistance. To assist staff with determining whether a contractor was a recipient/subrecipient or a vendor, the Department utilized the Department of Financial Services (DFS) *Florida Single Audit Act Checklist for Non-State Organizations – Recipient/Subrecipient vs. Vendor Determination* checklist (Determination Checklist) for both Federally and State-funded contracts. In addition, Department policies and procedures⁷ required employees engaged in the contract procurement process to maintain complete independence and impartiality in dealings with vendors and specified that all individuals who evaluated contract proposals or responses were to complete a *Conflict of Interest Questionnaire*.

During the period July 2014 through September 2015, the Department executed 200 contracts totaling \$224,146,221. As part of our audit, we examined Department records related to 40 contracts, totaling \$51,448,076, executed during the period July 2014 through September 2015, to determine whether the Department complied with applicable laws, rules, regulations, and Department policies and procedures for contract procurement and awards. Our examination disclosed that:

- For 9 contracts, totaling \$5,492,440, the Department was unable to provide documentation demonstrating that Determination Checklists had been completed prior to contract execution. In response to our audit inquiry, Department personnel indicated that for 6 contracts the contract managers were not aware that a Determination Checklist was required to be completed. In addition, for 2 contracts the Determination Checklists were completed after the contracts were executed, and for another contract, the Determination Checklist could not be provided. Absent the completion of Determination Checklists prior to contract execution, the Department cannot demonstrate that all contractors are appropriately determined to be a subrecipient or vendor, and that, as applicable, contracts include required information and terms in accordance with applicable Federal regulations and Federal program requirements.
- For contracts in excess of \$35,000 and that are awarded on a noncompetitive basis, the DFS requires⁸ each State agency to evaluate the contractor's proposed detailed budget and determine whether each line item budget category is allowable, reasonable, and necessary. The determination is to be documented on a cost analysis form and the form, along with documentation to support the conclusions reached, is to be maintained in the contract manager's file. For 34 contracts, totaling \$46,214,220, awarded on a noncompetitive basis, we noted that Department records included cost analysis forms that enumerated the contractor's budget and contained the contract manager's certification that the cost for each line item had been evaluated and determined to be allowable, reasonable, and necessary. However, Department records did not include documentation to support the basis for determining that the costs were allowable, reasonable, or necessary. Appropriate supporting documentation for cost analyses that demonstrate the Department's basis for determining that contractor costs are allowable, reasonable, and necessary would provide assurance, and serve to demonstrate, that the contracts were awarded at economical rates.
- For 2 competitively awarded contracts, totaling \$4,865,169, Department records did not include *Conflict of Interest Questionnaires* for the three contract evaluators. *Conflict of Interest*

⁵ Title 2, Part 200.331, Code of Federal Regulations.

⁶ The Florida Single Audit Act, Section 215.97(5), Florida Statutes.

⁷ Department Policies and Procedures 530.25, *Purchasing Procedures*.

⁸ Chief Financial Officer Memorandum No. 02 (2012-2013).

Questionnaires completed by Department contract evaluators reduce the appearance of and opportunity for favoritism and provide greater assurance that contracts are impartially awarded.

Recommendation: We recommend that Department management ensure that Determination Checklists evidencing the Department's determination of a contractor's status as a subrecipient or vendor are completed prior to contract execution and retained in Department records. We also recommend that Department management ensure that, for contracts awarded on a noncompetitive basis, appropriate documentation is retained to support the conclusions reached in completing the cost analyses required by the DFS. Department management should also ensure that *Conflict of Interest Questionnaires* are completed and maintained for all contract evaluators.

Finding 2: Contract Monitoring

Effective contract management requires the monitoring of contractor performance to determine compliance with contract provisions and to provide a means for early detection of potential problems and timely corrective action. To demonstrate effective contract management, monitoring activities should be documented in Department records. The DFS *State of Florida Contract and Grant User Guide* also provides State agencies with contract monitoring guidance and states that the results of monitoring should be communicated in writing to the contractor in a timely manner and retained in the contract file. In addition, monitoring reports should be subject to management review to ensure the appropriate communication of monitoring results and monitoring activities should be conducted by staff who are independent of, and who have no conflicts of interest related to, the contractors they are assigned to monitor.

We examined Department records related to ten on-site monitoring visits of Department contractors, conducted by Department monitoring staff during the period July 2014 through September 2015. Our examination of Department records for four monitoring visits conducted by Adult Care Food Program monitoring staff, four monitoring visits conducted by Statewide Public Guardianship Office (SPGO) monitoring staff, and separate monitoring visits for the Senior Community Service Employment Program (SCSEP) conducted by Monitoring and Quality Assurance Unit staff and SCSEP staff disclosed that:

- Department procedures did not require, and the Department did not document, that SPGO, SCSEP, and Quality Monitoring and Assurance Unit monitoring staff were independent of, and had no conflicts of interest related to, the contractors they were assigned to monitor.
- It was the practice of the SPGO to subject all monitoring reports to review by the staff supervisor and review and approval by the SPGO Executive Director. For two SPGO monitoring visits, no evidence was available to demonstrate that the related monitoring reports had been subject to the required reviews and had been approved by the SPGO Executive Director. In response to our audit inquiry, Department management indicated that the monitoring reports had been completed during a management transition period, which may have contributed to the absence of the required reviews and approvals.
- For three SPGO monitoring visits, the Department could not provide documentation, such as e-mails or notification letters, evidencing that the monitoring results were timely communicated to the contractors. In response to our audit inquiry, Department management indicated that it had not been the practice of the SPGO to document the date that monitoring reports were provided to contractors.

Documentation demonstrating that contract monitors are independent of, and have no conflicts of interest related to, the contractors they are assigned to monitor would provide greater assurance that monitoring activities are conducted in an independent and impartial manner. Further, maintaining evidence of appropriate supervisory review and approval of monitoring results and the communication of monitoring results to contractors would better demonstrate the appropriateness of the conclusions made and the timely communication of monitoring results.

Recommendation: We recommend that Department management establish procedures to require monitoring staff to document that they are independent of, and have no conflicts of interest related to, the contractors they are assigned to monitor. In addition, we recommend that Department management ensure that supervisory review and approval of all monitoring reports and the timely communication of monitoring results is documented in Department records.

PROPERTY CONTROLS

Effective controls for the management of tangible personal property⁹ require that property items be adequately controlled, safeguarded, and accounted for by Department management. DFS rules¹⁰ specify that State agencies are to record all tangible personal property with a value or cost of \$1,000 or more and a projected useful life or 1 year or more in the Florida Accounting Information Resource Subsystem (FLAIR) Property Subsystem. The FLAIR Property Subsystem facilitates the creation and maintenance of a property file that contains detailed information for each property item.

In addition, Department policies and procedures¹¹ specified that, to maintain control, accountability, and ensure safekeeping, property costing less than \$1,000, such as desktop and laptop computers, may also be classified as “accountable property.” Department policies and procedures specified that all accountable property was to be recorded in Department property records. According to Department property records, as of September 30, 2015, the Department was responsible for 1,325 property items with acquisition costs totaling approximately \$1.6 million.

Finding 3: Annual Physical Inventory

To promote the proper accountability for and safeguarding of property, DFS rules¹² and Department policies and procedures required the Department to complete a physical inventory of all tangible personal property, as well as accountable property, at least once each fiscal year, and that Department property records include, among other things, the date each property item was last physically inventoried. DFS rules¹³ and Department policies and procedures also specified that property custodian delegates were not to personally inventory items for which they were responsible.

⁹ Property is defined in applicable laws and rules as State-owned equipment, fixtures, and other tangible personal property of a nonconsumable or nonexpendable nature, the value or cost of which is \$1,000 or more and the projected useful life of which is 1 year or more.

¹⁰ DFS Rule 69I-72.002, Florida Administrative Code.

¹¹ Department Policies and Procedures 545.70, *Property Management*.

¹² DFS Rules 69I-72.003 and 69I-72.006(1), Florida Administrative Code.

¹³ DFS Rule 69I-72.006(4), Florida Administrative Code.

Department policies and procedures designated the Deputy Secretary, Inspector General, General Counsel, and Division Directors as property custodian delegates, and authorized the property custodian delegates to further delegate responsibility for physical inventories to property delegates. Department policies and procedures also specified that the Property Administrator was to oversee all matters affecting Department property records, including reconciliation of the annual inventory. The Department utilized an *Inventory Report by Room Number* form (inventory form) to document the physical inventory of each property item during the annual inventory.

As part of our audit, we examined Department property records as of April 30, 2015, and September 30, 2015, as well as documentation related to the Department's 2014-15 fiscal year physical inventory conducted on June 8, 2015. Our audit procedures disclosed that the Department did not ensure that all property items were inventoried or that property records were timely updated for the inventory results. Specifically, we found that:

- Although Department property records listed 1,454 active property items as of April 30, 2015, according to Department management, inventory forms were only prepared for approximately 1,200 items during the 2014-15 fiscal year physical inventory.
- Records for 231 of the property items, with acquisition costs totaling \$317,427, had not been updated to indicate that the items had been inventoried during the 2014-15 fiscal year. These 231 items were included in the 1,320 property items acquired prior to the Department's annual physical inventory in June 2015 and were listed as active in Department property records as of September 30, 2015.

In response to our audit inquiry, Department management indicated that they were unaware that the former Property Administrator had not prepared inventory forms for all property items or timely updated the property records to reflect the results of the 2014-15 fiscal year inventory.

Additionally, we examined the inventory forms prepared during the 2014-15 fiscal year inventory for 40 property items with acquisition costs totaling \$31,460. Our examination disclosed that for 5 items, with acquisition costs totaling \$3,774, property delegates had inventoried property items for which they were responsible. In response to our audit inquiry, Department management indicated that the property delegates inventoried their assigned property due to limited staff resources.

Periodic physical inventories of all applicable property by appropriate staff and accurate property records are necessary to ensure proper accountability for and safeguarding of State-owned property.

Recommendation: We recommend that Department management take steps to ensure that a complete annual physical inventory of Department property is conducted by appropriate staff and that Department property records are timely updated for the inventory results.

Finding 4: Property Records

DFS rules¹⁴ and Department policies and procedures¹⁵ specify that items not located during the inventory process are to be promptly reported to the custodian¹⁵ or the custodian's designee and that the custodian is to ensure that a thorough investigation is conducted. If the investigation determined that an item was lost or stolen, the individual property record was to be noted as such and a report was to

¹⁴ DFS Rule 69I-72.006(6)(b), Florida Administrative Code.

¹⁵ Department policies and procedures specified that the Department Secretary was the custodian of all Department property.

be filed with the appropriate law enforcement agency describing the missing item and the circumstances surrounding its disappearance. DFS rules¹⁶ and Department policies and procedures further require that, before removing unaccounted for property from the property records, the Department was to obtain approval from the DFS.

Additionally, State law¹⁷ requires each custodian to appoint one or more review boards to examine and make recommendations approving or disapproving the classification of property as surplus. Department policies and procedures established a surplus property review board, consisting of the Director of Administrative Services, General Counsel, and Manager of Support Services, to review and approve requests for the surplus of tangible personal property and other accountable property and to determine the method of disposal. DFS rules¹⁸ require that, for each item lawfully disposed of, State agencies update the property records to reflect the date, authority for, and manner of disposition.

According to Department records, 193 property items were not located during the 2014-15 fiscal year inventory. The items included 116 items that had been approved for surplus but could not be located during the inventory, 19 items noted as stolen, and 58 items noted as missing. As part of our audit, we examined Department records for 20 items, with acquisition costs totaling \$33,058, that were not located during the 2014-15 fiscal year inventory. Our examination disclosed that the Department had not timely updated Department property records based on the results of the 2014-15 fiscal year inventory and prior actions. Specifically, we noted that:

- 6 property items that were not located during the 2014-15 fiscal year inventory had been approved for disposal in 2009 and 2011. However, all 6 items remained listed as active on the Department's property records as of September 30, 2015. Subsequent to our audit inquiry, the Department removed 4 of the 6 items from the property records.
- The Department filed a police report in 2011 reporting a laptop computer as stolen and, in 2012, filed two police reports each reporting a computer as stolen. However, the Department had not requested from the DFS approval to remove the stolen computers from the Department's property records. As of March 31, 2016, the 3 computers were still listed as active on the Department's property records.
- The Department was unable to provide documentation demonstrating that 5 property items identified as missing had been properly investigated or reported as missing. All 5 items were listed as active on the Department's property records as of March 31, 2016.
- The Department was unable to provide documentation evidencing that 4 property items last inventoried between 2009 and 2011, listed as active on the Department's property records as of September 30, 2015, and identified as missing and classified as surplus (missing surplus), had been properly investigated or approved for surplus. Subsequent to our audit inquiry, the items were removed from the Department's property records.
- Department records indicated that a laptop computer identified as missing surplus had been returned to the vendor. However, the laptop computer was listed as active on the Department's property records as of March 31, 2016.

¹⁶ DFS Rule 69I-72.006(7), Florida Administrative Code.

¹⁷ Section 273.05(2), Florida Statutes.

¹⁸ DFS Rule 69I-72.005(5), Florida Administrative Code.

In response to our audit inquiry, Department management indicated that, due to staff turnover, supporting documents could not be located to account for the items that had been reported as missing or stolen.

Absent timely and appropriate investigations of property unaccounted for during the physical inventory process, and timely updating of Department property records, Department management has reduced assurance that the property records are accurate and that any missing or stolen property items will be timely detected and appropriately resolved.

Recommendation: We recommend that Department management take actions to ensure that property items not located during the annual inventory are properly reported and investigated, that appropriate approvals are obtained for property disposals, and that property records are timely updated when property items are approved for surplus or disposed of and to reflect the results of the annual physical inventory.

Finding 5: Dispositions of Property

DFS rules¹⁹ require the property records for each item lawfully disposed of to identify the date of disposition. According to Department records, the Department disposed of 345 property items, with acquisition costs totaling \$344,228, during the period July 2014 through September 2015.

As part of our audit, we examined Department records for 40 property items, with acquisition costs totaling \$44,607, disposed of during the period July 2014 through September 2015, to determine whether Department property records had been timely and accurately updated for the dispositions. Our examination disclosed that the Department did not always timely or accurately update the property records for property dispositions or timely dispose of property that had been approved for disposal. Specifically, we noted that:

- Department staff had not appropriately updated the property records for 4 property items with acquisition costs totaling \$8,861. The Department's surplus property review board approved the items for disposal in August 2013 and the Department disposed of 2 of the items in August 2013 and the other 2 items in September 2013; however, Department property records indicated an April 2015 disposition date for these items.
- An external fax and modem, with an acquisition cost totaling \$4,578, was approved for disposal in August 2013, but was not disposed of until subsequent to our audit inquiry in April 2015, 423 business days after the disposition was approved.

In response to our audit inquiry, Department management indicated that the former Property Administrator had not timely disposed of the external fax and modem nor updated Department property records to reflect the disposition of the surplus items. The timely disposition of property and updating of property records to reflect the dispositions helps maintain accountability over Department property and demonstrate compliance with applicable DFS rules.

Recommendation: We recommend that Department management enhance property controls to ensure that property approved for disposal is timely disposed of and Department property records are appropriately updated to reflect timely property dispositions made in accordance with DFS rules.

¹⁹ DFS Rule 69I-72.005(5), Florida Administrative Code.

OTHER ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated other Department administrative activities and controls, including those related to Department expenditures and the return of State-owned property by employees separating from Department employment.

Finding 6: Coding and Appropriateness of Expenditures

The Department expended approximately \$129.8 million during the period July 2014 through September 2015 for general expenditure items (e.g., computer equipment, office supplies, and cellular telephone service charges), travel, and contract payments. To ensure the appropriateness of Department expenditures, the Department should establish and implement controls, including controls to prevent improper and duplicate payments. Such controls should include, but not be limited to, verifying that, prior to payment, amounts are accurate and adequately supported; properly approving and accurately coding transactions into FLAIR; and appropriately marking invoices and supporting documents as paid to prevent duplicate payment.

As part of our audit, we examined documentation for selected Department transactions made during the period July 2014 through September 2015, including: 40 general expenditure transactions totaling \$138,110; 42 transactions, totaling \$47,465, recorded as travel expenditures; and 10 contract advance payment transactions totaling \$1,650,709. Our examination disclosed that Department controls did not always ensure that expenditures were appropriately supported or approved, expenditure transactions were appropriately coded, or supporting documents were properly marked when paid. Specifically, we found that:

- 4 travel expenditures, totaling \$1,743, were not supported by appropriate documentation. For example, contrary to DFS guidelines, Department records for a \$953 expenditure related to conference attendance lodging did not include a copy of the conference agenda and Department records for a \$329 expenditure for lodging did not include a copy of the hotel receipt. Additionally, the travel voucher for a \$701 travel expenditure was not signed by the approver. Also, while Department management indicated that accounting staff were to review travel vouchers prior to payment, no documentation of any reviews could be provided.
- During the period July 2014 through September 2015, the Department paid approximately \$23 million in advances to 11 contracted entities. While standard accounting codes had been established to facilitate the identification of advance payments in FLAIR, the Department did not record the advances to the correct accounting codes. In response to our audit inquiry, Department management indicated that incorrect accounting codes had been used due to staff oversight.
- 2 expenditures, totaling \$4,258, for telephone services and volunteer training had been incorrectly recorded as travel expenditures. In response to our audit inquiry, Department management indicated the expenditures were incorrectly recorded due to staff oversight.
- The Department incorrectly recorded in FLAIR the transaction dates for 10 general expenditure transactions totaling \$101,500. State law²⁰ requires State agencies to record all invoices received in FLAIR, approve the invoice for payment, and file the invoices with the State's Chief Financial Officer 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. If a warrant in payment

²⁰ Section 215.422(1), Florida Statutes.

of an invoice is not issued within 40 days after receipt of the invoice, State law²¹ requires the agency to pay interest to the vendor on the unpaid balance.

The DFS issued guidance²² specifying that, in the FLAIR Transaction Date field, State agencies are to record the later of the date the goods or services were received, inspected, and approved, or the date the invoice was received. For advance payments, State agencies are 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 7 of the transactions (5 of which originated in MyFloridaMarketPlace (MFMP)), the Department made advance payments and did not record zeroes in the Transaction Date field. For the other 3 transactions (2 of which originated in MFMP), the transaction dates recorded by the Department ranged from 1 to 20 days later than the transaction dates supported by Department records. Had the Department correctly recorded the transaction date for 1 of the 3 transactions, the Department would not have complied with prompt payment requirements. In response to our audit inquiry, Department management indicated that MFMP had automatically assigned the transaction dates for the transactions which originated in MFMP,²³ and that staff had entered incorrect transaction dates for the other transactions that were processed in FLAIR.

- The supporting documents for 2 general expenditure payments, totaling \$1,198, and 40 travel expenditures, totaling \$42,506, were not marked as paid once the payments were processed and no other controls had been established to reduce the risk of duplicate payments. In response to our audit inquiry, Department management indicated Department procedures did not require invoices and other supporting documents to be marked as paid when expenditures were approved and paid.

Effective controls over Department expenditures increase the Department's assurance that payments are appropriate, adequately supported, and serve an authorized purpose of the Department. In addition, marking invoices and supporting documents as paid reduces the risk of duplicate payments and proper expenditure coding within FLAIR strengthens accountability and assists in the planning and budgeting of Department expenditures.

Recommendation: We recommend that Department management enhance procedures to ensure that all travel expenditures are appropriately supported and approved, the review of travel vouchers is documented, and that expenditure transactions are accurately recorded in FLAIR. To reduce the risk of duplicate payments, we also recommend that Department management update procedures to require that invoices and other supporting documents be marked when paid.

Finding 7: Return of State-owned Property

The Department utilized an *Employee Property Checklist for New Hires, Reassignments, and Separations* (Checklist) to document all State-owned property assigned to an employee and the date the property was returned by the employee. The Department required that the Checklist be completed when an employee was hired, separated from Department employment, or moved from one Department unit to another Department unit. The employee's supervisor was responsible for documenting the issuance of all State-owned property and the return of all items listed on the Checklist.

²¹ Section 215.422(3)(b), Florida Statutes.

²² CFO Memorandum No. 1 (2013-14).

²³ The MFMP Buyer Manual, March 2014, requires user agencies to verify the transaction date within the reconciliation process.

As part of our audit, we requested Checklists for 24 employees who were assigned State-owned property, such as laptop computers and cellular telephones, and separated from Department employment during the period July 2014 through September 2015, to determine whether Checklists had been appropriately completed documenting the return of State-owned property. In response to our audit request, the Department could not provide Checklists, or other documentation demonstrating the return of State-owned property, for 14 of the 24 employees.

While Department management indicated that the Checklist was to be used to document the return of all State-owned property, the Department had not established written policies and procedures requiring Department supervisors to use the Checklist. The establishment of written policies and procedures for the timely and accurate completion of Checklists would enhance Department efforts to demonstrate accountability for State-owned property.

Recommendation: We recommend that Department management establish written policies and procedures requiring the timely and accurate completion of Checklists documenting the return of State-owned property by all employees separating from Department employment.

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 September 2015 through April 2016 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 financial management controls and selected administrative activities of the Department of Elder Affairs (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.

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, Department policies and procedures, and other guidelines, and interviewed Department personnel to gain an understanding of financial management processes.
- Performed inquiries of Department staff and inspected documents and records to determine whether Department management had adequately designed and implemented controls, including policies and procedures, for financial management and other administrative activities.
- Examined personnel and training records for the four Department employees with accounting responsibilities who were hired during the period July 2014 through September 2015, and the one Department employee with property management responsibilities who was hired in April 2014, to determine whether the employees had received training, as applicable, in accounting, budgeting, and contracting functions.
- Examined personnel and training records for 10 of the 36 Department contract managers as of October 20, 2015, to determine whether the contract managers completed the training conducted by the Department of Financial Services (DFS) for accountability in contracts and grant management.
- Reviewed Department procedures and checklists for the 2014-15 fiscal year-end closing and financial statements preparation process to determine if the procedures and checklists were adequately designed to promote accurate, complete, and timely financial reporting and compliance with applicable State and Federal laws, rules, regulations, and DFS guidance.
- Analyzed Department financial records for the 2013-14 and 2014-15 fiscal years to identify significant fluctuations and examined related supporting records to determine whether:

- Year-end adjustments were appropriate, timely made, and not indicative of management override.
- Amounts transferred to or received from other State agencies and the Federal Government were made in compliance with Department policies and procedures, accurately and completely recorded, supported by sufficient documentation, and, for amounts received from other State agencies, agreed to amounts recorded by the applicable State agency.
- The Department reconciled interagency transfers, including due to and due from transactions.
- Cash and expenditure transfers among funds and budget entities were made in compliance with Department policies and procedures, properly executed and approved, accurately and completely recorded, timely made, and supported by sufficient documentation.
- Determined whether financial transactions for the period July 2014 through September 2015 were made timely and in accordance with applicable laws and regulations, adequately documented, and properly authorized by examining:
 - From the population of 2,490 general expenditure transactions greater than or equal to \$50 and totaling \$2,538,803, documentation for 40 general expenditure transactions totaling \$138,110.
 - From the population of 12,980 transactions, totaling \$1,157,898, recorded as travel expenditures, documentation for 42 transactions, totaling \$47,465, recorded as travel expenditures.
 - From the population of 5,008 contract payment transactions greater than \$99 and totaling \$125,893,157, documentation for 40 contract payment transactions totaling \$917,978.
 - From the population of 41,091 correcting entry transactions with cumulative absolute values totaling \$114,633,197, documentation for 40 correcting entry transactions with cumulative absolute values totaling \$1,284,647.
 - From the population of 32,814 intraagency transfer transactions, totaling \$7,585,093, documentation for 20 intraagency transfer transactions totaling \$1,480,438.
 - From the population of 1,452 revenue transactions, totaling \$131,692,487, documentation for 40 revenue transactions totaling \$2,382,408.
- Examined Department financial records for 10 advance payments, totaling \$1,650,709, made to eight contracted entities during the 2014-15 fiscal year to determine whether subsequent contract payments to the entities were reduced as required and the total amount advanced was recovered by the end of the contract period. Additionally, for the 79 advance payments, totaling \$22,998,363, paid to 11 contracted entities during the period July 2014 through September 2015, examined Department financial records to determine whether the advances had been properly recorded.
- Analyzed Department financial records for the period July 2014 through September 2015 to determine whether the Department's cash management process was sufficient to ensure that Department cash balances met the Department's daily cash needs.
- Analyzed Department property records to determine whether the Department had entered the identifying information required by DFS rules and Department policies and procedures for the 1,325 property items recorded in Department property records as of September 30, 2015.
- Examined Department inventory records to determine whether the Department had performed a physical inventory of property during the 2014-15 fiscal year in accordance with applicable laws, DFS rules, and Department policies and procedures. In addition, for 40 property items, with acquisition costs totaling \$31,460, examined inventory records to determine whether the

physical inventory had been timely conducted by appropriate personnel, and whether the property records had been properly updated for the results of the inventory.

- Of the 193 items the Department was unable to locate during the 2014-15 fiscal year physical inventory, examined Department records for 20 items, with acquisition costs totaling \$33,058, to determine whether the Department made appropriate investigations regarding the missing items and whether Department property records were timely updated.
- Physically observed 20 of the approximately 1,200 property items inventoried by the Department for the 2014-15 fiscal year and recorded in Department property records to verify the existence of the items and to determine whether the information recorded in Department property records accurately reflected the physical location, serial number, and description of the items. Selected an additional 20 property items during the physical observation and determined whether the physical location, serial number, and property description for the items agreed with the information recorded in Department property records.
- From the population of 57 transactions, totaling \$29,886, related to the acquisition of property during the period July 2014 through September 2015, examined Department purchasing records for 5 property items, with acquisition costs totaling \$4,317, to determine whether the items were timely and accurately added to the Department's property records.
- From the population of 345 property items, with acquisition costs totaling \$344,228, disposed of during the period July 2014 through September 2015, examined Department records for 40 items, with acquisition costs totaling \$44,607, to determine whether the property dispositions were properly documented and made in accordance with applicable laws, rules, and Department policies and procedures.
- Examined Department records for 40 contracts, totaling \$51,448,076, from the population of 200 contracts, totaling \$224,146,261, executed during the period July 2014 through September 2015, to determine whether the Department complied with applicable laws, rules, regulations, and Department policies and procedures for contract procurement and awards.
- From the population of 70 on-site monitoring visits of contractors conducted by the Department during the period July 2014 through September 2015, examined Department records for 10 on-site monitoring visits of contractors to determine whether Department records evidenced that contract terms were monitored, monitoring tools were completed, monitoring reports were timely provided to the contractors and reflected issues identified, and whether the Department timely followed up on all issues identified in the monitoring reports.
- Performed inquiries of Department staff and inspected documents and records to determine whether Department management reviewed People First, payroll, and vendor payment records to identify potential dual employment. In addition, for the five Department employees identified as potentially dual-employed during the 2014-15 and 2015-16 fiscal years, examined Department records to determine whether dual employment had been appropriately reported and approved for the 2014-15 and 2015-16 fiscal years, as applicable.
- Examined Department leave balance audit records and People First leave balance records for 5 of the 63 Department employees who separated from Department employment and received a leave payout during the period July 2014 through September 2015 to determine whether leave balance audits had been correctly conducted prior to the payout for any unused leave.
- From the population of 72 salary payment cancellations, with miscellaneous post-tax deductions totaling \$16,192, made during the period July 2014 through September 2015, examined Department records for 10 salary payment cancellations, with miscellaneous post-tax deductions totaling \$4,129, to determine whether the Department took timely and appropriate actions to cancel the payment and, as applicable, recover payroll deductions paid to third parties.

- From the population of 152 employees who separated from Department employment during the period July 2014 through September 2015, examined Department records for 24 employees who were assigned State-owned property to determine whether the Department appropriately documented the return of all State-owned property.
- 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:
 - The administration of purchasing cards in accordance with applicable guidelines. The Department had 180 active purchasing cards during the period July 2014 through June 2015.
 - The assignment and use of wireless devices with related service costs totaling \$123,513 during the period July 2014 through June 2015.
- 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

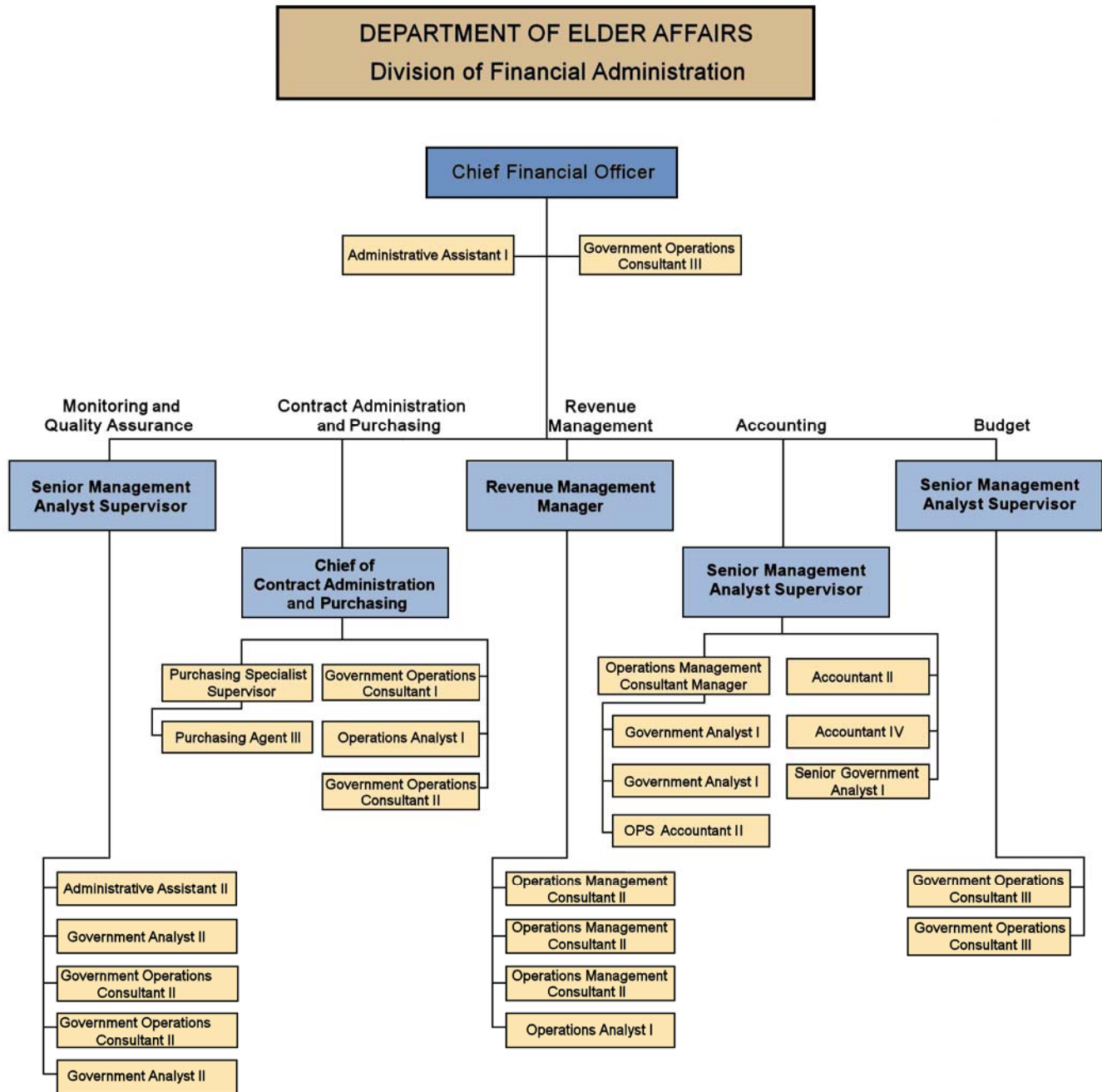
Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

EXHIBIT A

DIVISION OF FINANCIAL ADMINISTRATION ORGANIZATIONAL CHART AT MARCH 31, 2016



Source: Department records.

MANAGEMENT'S RESPONSE



Rick Scott
Governor

Jeffrey Bragg
Secretary

October 5, 2016

Sherrill F. Norman, Auditor General
Office of the Auditor General
Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, this is our response to your report, *Department of Elder Affairs – Financial Management Controls and Selected Administrative Activities*. Our response to the Department's recommendations corresponds with the order of your findings and recommendations

If further information is needed concerning our response, please contact Taroub J. King, Inspector General, or Kimberly Jones, Audit Director, at 414-2000.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeffrey S. Bragg".

Jeffrey S. Bragg
Secretary

JSB/TJK/kj

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Department of Elder Affairs' Response to Auditor General Preliminary and Tentative Findings
Report,
*Department of Elder Affairs – Financial Management Controls
and Selected Administrative Activities*

Finding No. 1:

Department records did not always evidence that: (1) a contractor's status as a subrecipient or vendor had been appropriately determined, as required for purposes related to the Federal and the Florida Single Audit Acts; (2) cost analyses prepared for contracts awarded on a noncompetitive basis were supported; or (3) contract evaluators were free from conflicts of interest.

Recommendation:

We recommend that Department management ensure that Determination Checklists evidencing the Department's determination of a contractor's status as a subrecipient or vendor are completed prior to contract execution and retained in Department records. We also recommend that Department management ensure that, for contracts awarded on a noncompetitive basis, appropriate documentation is retained to support the conclusions reached in completing the cost analyses required by the Department of Financial Services (DFS). Department management should also ensure that Conflict of Interest Questionnaires are completed and maintained for all contract evaluators.

Response:

In August 2015, the Department began to develop procedures for a Contract Review Checklist to assist in the review of any contract, amendment or renewal. As part of this checklist, staff will verify the completion of the required documents: vendor determination status, cost analysis, and conflict of interest. Additionally, all supporting documentation will be retained in the Department's records.

Finding No. 2:

The Department did not always document that monitoring staff were independent of, and had no conflicts of interest related to, contractors they were assigned to monitor. In addition, Department monitoring records did not always evidence that monitoring reports were subject to supervisory review and approval or that monitoring results were timely communicated to contractors.

Recommendation:

We recommend that Department management establish procedures to require monitoring staff to document that they are independent of, and have no conflicts of interest related to, the contractors they are assigned to monitor. In addition, we recommend that Department management ensure that supervisory review and approval of all monitoring reports and the timely communication of monitoring results is documented in Department records.

Response:

The Department has enhanced their procedures to require documentation of employees' independence and no conflict of interest with the contractors they are assigned to monitor. As to the monitoring reports, the Department will document the reviews and approvals by supervisors and evidence that the reports were mailed to the contractors.

Finding No. 3:

The Department did not ensure that a complete annual physical inventory of Department property was conducted or that property records were timely updated for the results. In addition, duties related to Department property were not always properly separated as Department property delegates sometimes inventoried property items for which they were responsible.

Recommendation:

We recommend that Department management take steps to ensure that a complete annual physical inventory of Department property is conducted by appropriate staff and that Department property records are timely updated for the inventory results.

Response:

The Department has already implemented steps to correct these issues by creating a new electronic property system that will allow the property delegates and administrator to communicate and track property more efficiently. The development of the system began in October 2015 and was fully implemented in January 2016 to include additional functionalities like the assignment of property records to appropriate staff and their related timely verification of those records.

Finding No. 4:

The Department did not always document the proper reporting and investigation of property not located during the annual physical inventory, or ensure that property records were appropriately updated based on the results of the annual physical inventory.

Recommendation:

We recommend that Department management take actions to ensure that property items not located during the annual inventory are properly reported and investigated, that appropriate approvals are obtained for property disposals, and that property records are timely updated when property items are approved for surplus or disposed of and to reflect the results of the annual physical inventory.

Response:

As stated in the previous response, the new property system will aid in the timely detection of all property items including those records that cannot be located so that immediate action is taken. Also, procedures were enhanced to include a tracking process of the surplus property for every step of the inventory cycle, approval and ultimate disposal.

Finding No. 5:

The Department did not always timely or accurately update Department property records for property dispositions or timely dispose of property that had been approved for disposal.

Recommendation:

We recommend that Department management enhance property controls to ensure that property approved for disposal is timely disposed of and Department property records are appropriately updated to reflect timely property dispositions made in accordance with DFS rules.

Response:

With the new property system and surplus tracking process, as stated in the previous response, the Department has investigated all records that require disposition to determine if these records are to be removed from the accounting system. The Department will continue to work with DFS to ultimately remove them from state records.

Finding No. 6:

Department controls did not always ensure that expenditures were appropriately supported or approved, expenditure transactions were appropriately coded, or that supporting documents were properly canceled.

Recommendation:

We recommend that Department management enhance procedures to ensure that all travel expenditures are appropriately supported and approved, the review of travel vouchers is documented, and that expenditure transactions are accurately recorded in FLAIR. To reduce the risk of duplicate payments, we also recommend that Department management update procedures to require that invoices and other supporting documents be marked when paid.

Response:

The Department agrees that accurate coding of expenditures, the collection of proper supporting documentation and minimizing the risk of duplicate payments will ensure the appropriateness of expenditures. The Department will continue to train employees as a measure of maintaining internal controls. This ongoing training includes: receiving documentation and approvals prior to payment; utilizing proper accounting codes; and, reviewing voucher summary reports for accuracy, prompt payment compliance rules, and the proper use of transaction dates. And to reduce the risk of duplicate payments, the Department currently requires original invoice for payment and investigates any copy invoice that is submitted for payment. The Department will continue to analyze solutions that may further reduce the potential risk for duplicate payments.

Finding No. 7:

The Department did not always document the return of State-owned property from employees separating from Department employment.

Recommendation:

We recommend that Department management establish written policies and procedures requiring the timely and accurate completion of Checklists documenting the return of State-owned property by all employees separating from Department employment.

Response:

The Department created an off-boarding electronic system for employees who separate their employment with the State of Florida. This new system was developed September 2014 and fully implemented December 2014.

The system notifies the supervisor of the separation by automatically creating emails and reports. One of the features of this system is to verify property was returned when employee leaves, is hired or changes positions. The Department will incorporate these new features into its existing procedures.

