



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

November 19, 2014

Mr. Jesse Panuccio, Executive Director
Florida Department of Economic Opportunity
107 East Madison Street
Caldwell Building
Tallahassee, FL 32399-4120

Dear Mr. Panuccio:

The Bureau of Auditing (Bureau) performs audits in accordance with Section 17.03, Florida Statutes (F.S.). This statute relates to the Chief Financial Officer's (CFO) responsibilities to settle the claims of the state using various methods. The Bureau also audits pursuant to the requirements of Section 215.971, F. S., for grant agreements funded with Federal and State monies. Audits on contractual services agreements are audited pursuant to Sections 287.057(14) and 287.058(1), F. S. The CFO also issues memorandums that provide additional audit requirements.

The Bureau reviews contracts and grants to determine:

- Whether the agreement clearly establishes the tasks to be performed by the provider (has a clearly defined scope of work)
- Whether the agreement defines quantifiable, measurable, and verifiable units of deliverables that must be received and accepted before payment is made
- Whether the agreement specifies the financial consequences that the agency must apply if the provider fails to perform in accordance with the contract
- Whether the manager provided written certification for the receipt of goods and services.

Because many of the deficiencies in agency contract and grant agreements stem from poor contract management and a lack of effective monitoring, the Bureau visits agencies and reviews contracts, along with the contract manager's files. In addition to reviewing the contract document, the Bureau evaluates the contract management function to determine if the agency is monitoring the contractor's performance and validating the actual delivery of goods and services. These audits result in written reports to the agency, with the agency providing a corrective action plan to address any deficiencies noted during the review. To date, 24 reviews have been

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completed and the results are available on the Bureau website

http://www.myfloridacfo.com/aadir/auditing_activity.htm.

We have concluded our review of selected Department of Economic Opportunity (Department) grants and contracts effective on or after January 1, 2013 through December 31, 2013, and related management activities. Our review focused on compliance with the following statutory requirements:

- Contract/grant agreements must contain a clear scope of work.
- Contract/grant agreements must contain deliverables that are quantifiable, measurable, verifiable and directly related to the scope of work.
- Contract/grant managers must enforce performance of the agreement terms and conditions; review and document all deliverables for which payment is requested by service providers; and provide written certification of the Department's receipt of goods and services.

We reviewed four service agreements and 18 grant agreements. There are several areas where improvements can be made. Attachment A provides a summary of all 22 agreements reviewed.

Scope of Work and Deliverables

Each service contract and grant agreement must contain a clear scope of work, deliverables directly related to the scope of work, minimum required levels of service, criteria to successfully evaluate satisfactory performance, and compensation for each deliverable. This structure is very important for payment processing; without it, the Department cannot gauge whether the State is receiving value and payments may be delayed by requests for additional documentation. In some cases, if any of these elements are missing, the only mechanism to provide payment to vendors may be through executed settlement agreements.

- Our audit disclosed that four grant agreements contained a **scope of work** that did not clearly establish the tasks to be performed. Specifically, we noted the following:
 - The agreement with Habitat for Humanity of Florida was to provide affordable housing to low-income applicants by acquiring and reconstructing existing homes. The scope of work did not contain criteria necessary to identify eligible properties under the program, did not set a limit on the use of funds for reconstruction purposes, and did not establish the eligibility requirements households must meet in order to receive assistance.

- The agreement with Hispanic Business Initiative Fund was designed to strengthen local and regional economies by providing quality business technical assistance and entrepreneurial training to minority small businesses. The Department did not include documentation requirements in the agreement that would sufficiently evidence the completion of services.
- The agreements with Miami Dade College and The Women's Resource Center of Sarasota County required the provider to record services provided to participants in the Department's online database, Employ Florida Marketplace (EFM), without specifying the documentation to be retained to evidence the delivery of those services.
- The specific level of service required to be performed and/or criteria to determine successful completion of the **deliverables** before payment were not specified in three grant agreements. Specifically, we noted the following:
 - A one-year agreement between the Department and Florida Goodwill Association was to create 40 new jobs in the local economy through "capital construction, improvements or the purchase of equipment." The agreement required quarterly payments without establishing minimum performance standards the provider must meet quarterly to evaluate successful completion of each deliverable. For example, number of jobs to be created quarterly, the minimum number of hours for each job created, and how long each job was to be maintained.
 - The Hispanic Business Initiative Fund was designed to strengthen local and regional economies by providing quality business technical assistance and entrepreneurial training to minority small businesses. The agreement required the recipient to prepare and submit quarterly reports of services along with an invoice, but did not establish quarterly minimum performance standards the provider must meet to evaluate successful completion of each deliverable.
 - The Metro-Broward Economic Development Corporation was to provide loans, loan guarantees or investments to eligible black business enterprises, but did not assign minimum requirements that are to be accomplished prior to payment.

Financial Consequences

Section 287.058 (1)(h), and Section 215.971 (1) (c), F.S., require service agreements to contain provisions for financial consequences an agency must apply if a provider fails to perform in accordance with a contract. Seven agreements did not contain financial consequences for nonperformance/noncompliance. Specifically, we noted the following:

- The agreements with Florida Goodwill Association, Hispanic Initiative Fund, Riverway South Apalachicola-Choctawatchee, Inc., Space Florida, and Tampa Bay Innovation Center did not establish financial consequences that were related to the provider's failure to perform the required level of service, and instead were tied only to the failure to submit reports timely.
- The agreements with The Institute for Commercialization of Public Research, Riverway South Apalachicola-Choctawatchee, Inc., Simmons Moving & Storage, Inc., and Space Florida contained financial consequences that the Department "may" impose, but was not required to apply as directed by statute.

Florida Single Audit Act

Rule 69I-5.006(3), Florida Administrative Code (F.A.C.) requires the standard audit language contained on Form DFS-A2-CL, and CFO Memorandum (CFOM) No. 04 (2005-2006) requires additional audit language to be included in the document that establishes the state's, recipient's or subrecipient's relationship with the non-state entity. Six agreements did not contain all required standard audit language:

- Florida Holocaust Museum
- Hispanic Business Initiative Fund
- MetroBroward Economic Development Corporation
- Miami-Dade College
- Riverway South Apalachicola-Choctawatchee, Inc.
- Tampa Bay Innovation Center

Cost Analysis

Section 216.3475, F.S. and CFOM No. 2 (2012-2013), state that each agency shall maintain records to support a cost analysis, which includes a detailed budget submitted by the person or entity awarded funding and the agency's documented review of individual cost elements from

the submitted budget for allowability, reasonableness, and necessity. This includes all service agreements, executed on or after July 1, 2010, which were awarded on a noncompetitive basis.

The Department did not provide evidence that a cost analysis was performed prior to the execution of the agreement for 17 agreements.

- Centro Campesino Farmworker Center, Inc.
- Coalition of Florida Farmworker Organizations
- Community Action Program
- Florida Goodwill Association
- Habitat for Humanity of Florida
- Hispanic Business Initiative Fund
- Institute for Commercialization of Public Research
- Meals on Wheels, Etc., Inc.
- MetroBroward Economic Development Corporation
- Miami Dade College
- Mid Florida Community Services
- Orange County Board of County Commissioners
- Pinellas Opportunity Council
- Riverway South Apalachicola-Choctawatchee, Inc.
- Space Florida
- Tampa Bay Innovation Center
- Women's Resource Center of Sarasota

Contract/Grant Management

Contract/Grant managers must enforce performance of the contract terms and conditions, review and document all deliverables for which payment is requested and provide written certification of the Division's receipt of goods and services and ensure all payment requests are certified.

Our audit disclosed that the Department had Contract/Grant management deficiencies with 12 agreements. Specifically, the following was noted:

- The Department did not always provide written certification by the contract manager that goods and services were satisfactorily received prior to payment as required by Section 287.057(14), F.S., for payments made under the agreements with Centro-Campesino Farmworker Center, Community Action Program and Meals on Wheels. Alternatively, certification was provided by the program manager.

- The management file did not always contain the documentation required by the agreement for five (5) of the agreements reviewed.
 - The Department's agreement with Florida Goodwill Association to create jobs through constructing new stores, remodeling existing stores and buying new equipment required the provider to submit proof of general liability and worker's compensation insurance within 30 days of the execution of the agreement. The Department did not provide evidence that insurance documentation was submitted and maintained in the management file.
 - The Department's review and approval of Habitat for Humanity of Florida's executed subcontracts was not evidenced in the management file as required by the agreement.
 - Work performed under the agreement with Miami Dade College required the provider's staff to have access to confidential information that is protected by law. The agreement required the provider to submit proof of insurance and background screening performed on the provider's staff. The Department did not provide evidence of their verification of either requirement.
 - Quarterly reports submitted by Mid Florida Community Services (Mid Florida) and Orange County BOCC (Orange County) were not in compliance with the agreement. The agreement required the provider to submit a quarterly report that summarized tasks completed during that quarter. The quarterly reports submitted did not establish that the provider conducted outreach activities; however, the Department is approving payment annually for outreach activities to Mid Florida in the amount of \$325,616 and to Orange County in the amount of \$484,996.
- The Department's contract management activity for 11 agreements did not appear sufficient as payments were approved based on provider generated data such as invoices and reports without validation that was documented by the Department. Specifically, we noted the following:
 - The Department's agreements with Centro Campesino Farmworker, Coalition of Florida Farmworkers, Community Action Program, Habitat for Humanity of Florida, Meals on Wheels, Mid Florida Community Services, Orange County BOCC, Pinellas Opportunity Council, and South Florida Regional Planning Council established reimbursement of expenditures as the method of payment. The Department did not provide evidence that expenditures incurred by the

provider were verified through the review of paid receipts prior to approving the invoice for payment.

- The Department did not provide evidence that the creation of jobs as reported quarterly by Florida Goodwill Association was verified prior to approving payment. The provider created and submitted a report along with an invoice which included the name of individual hired, date hired, position and location; however, the Department did not provide evidence of their review or verification of the report.
- The agreement with Metro Broward Economic Development required funds awarded to be invested in a separate interest bearing account until totally expended for the purposes provided in the agreement. The Department did not provide evidence that the provider complied with the provisions of the agreement.
- Chapter 2013-106, Section 7, Laws of Florida, appropriated \$20 million to the Department to provide a grant to the Habitat for Humanity of Florida. In accordance with the law, the start date of the grant was to be 30 days after the request for proposals was released to the 58 Habitat for Humanity of Florida affiliates. The request for proposals was released to the affiliates on August 5, 2013. The Department approved reimbursement of expenses prior to the start date for the period June 29, 2013 – September 4, 2013, in the amount of \$4,245.
- The Department approved advanced payments to Habitat for Humanity beyond the first three (3) months anticipated cash needs without specific authority. The Department approved an advance payment of \$784,368 for the first three (3) months anticipated cash needs and subsequently approved a second advance payment in the amount of \$2,405,018 within six (6) months of the first advance without proper approval.
- The Department did not complete the Vendor vs. Recipient Determination Checklist for the Metro Broward Economic Development Corporation agreement, as required by Rule 69I-5.006, F.A.C. when an agreement is funded with State Financial Assistance.
- The Department did not practice proper internal controls when managing the agreement with Habitat for Humanity. The Department did not ensure proper segregation of duties. The contract manager approved the \$2,405,018 advance payment and also took custody of the warrant.

- The Department's monitoring activities to validate receipt of the deliverables were not sufficient for three agreements.
 - At the time of the review, the Department approved payments for over \$3 million; however the contract management file for Habitat for Humanity did not evidence any activities by the contract manager to validate deliverables.
 - The Department entered into 13-month agreements with Mid Florida Community Services and Orange County BOCC to provide energy assistance to low income clients on an ongoing basis. The Department paid for services by reimbursing costs monthly. With onsite verification of programmatic activities and expenditure conducted every two years for the 13-month agreements, reasonable assurance the Department is receiving services in accordance with the agreement would be difficult to establish.

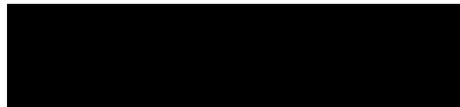
Please provide the Department's corrective action plan which addresses how these deficiencies will be corrected for future contracts. This plan should include steps the Department will take to provide a system of quality control, including training, periodic management review, and feedback to Department staff that develop and manage contracts and grants. We request that the plan be submitted within 30 days of receipt of this letter.

Our office provides Contract Manager Training that would be beneficial to your staff. Additional information on these classes is available at

<http://www.myfloridacfo.com/aadir/AuditingTraining.htm>

We appreciate your staff's support and cooperation during the audit. Please contact Mark Merry, Chief of the Bureau of Auditing, at 850-413-3074 if you have any questions.

Sincerely,

A solid black rectangular box used to redact the signature of Christina Smith.

Christina Smith

Cc: Mr. Jim Landsberg
Inspector General

**Attachment A
 Department of Economic Opportunity**

Contract No.	Service Provider	Contract Amount	Agreement Type	Clear Scope of Work	Deliverables	Financial Consequences	Florida Single Audit Act	Cost Analysis Performed	Acceptable Contract/Grant Management	TOTAL NUMBER OF AREAS WITH DEFICIENCIES
13WX-OG-12-00-08-009	Centro-Campesino Farmworker Center, Incorporated	\$ 443,529	Grant	Yes	Yes	Yes	Yes	No	No	2
14SB-OD-12-00-04-007	Coalition of Florida Farmworker Organizations, Inc.	\$ 378,396	Grant	*	*	*	*	No	No	2
C0930	College Measures, LLC	\$ 105,000	Contract	Yes	Yes	Yes	Yes	Yes	Yes	0
13WX-OG-01-27-04-010	Community Action Program Committee, Incorporated	\$ 1,145,695	Grant	Yes	Yes	Yes	Yes	No	No	2
C1059	Florida Goodwill Association	\$ 750,000	Grant	Yes	No	No	Yes	No	No	4
SB-12-015	Florida Holocaust Museum	\$ 150,000	Grant	Yes	Yes	Yes	No	Yes	Yes	1
P0055	Habitat for Humanity of Florida	\$ 20,000,000	Grant	No	Yes	Yes	Yes	No	No	3
P0068	Hispanic Business Initiative Fund of Florida, Inc.	\$ 775,000	Grant	No	No	No	No	No	Yes	5
S0010	Institute for Commercialization of Public research, Inc.	\$ 5,500,000	Grant	Yes	Yes	No	Yes	No	Yes	2
A8D431	KPMG, LLP	\$ 857,675	Contract	Yes	Yes	Yes	Yes	Yes	Yes	0
13WX-OG-06-69-08-030	Meals on Wheels, Etc., Inc.	\$ 398,407	Grant	Yes	Yes	Yes	Yes	No	No	2
BBLP 13-0005	MetroBroward Economic Development Corporation	\$ 317,857	Grant	Yes	No	Yes	No	No	No	4
C0704	Miami Dade College	\$ 703,128	Grant	No	Yes	Yes	No	No	No	4
13EA-OF-12-00-04-018	Mid Florida Community Services, Inc.	\$ 2,417,596	Grant	*	*	*	*	No	No	2
13EA-OF-12-00-01-022	Orange County, Florida	\$ 3,836,656	Grant	*	*	*	*	No	No	2
14SB-OD-08-62-04-022	Pinellas Opportunity Council, Inc.	\$ 583,152	Grant	*	*	*	*	No	No	2
RDG13-02	Riverway-South Apalachicola-Choctawhatchee, Inc. (RWSAC)	\$ 94,000	Grant	Yes	Yes	No	No	No	Yes	3
C0906	Simmons' Amerimove, Inc.	\$ 300,000	Contract	Yes	Yes	No	Yes	Yes	Yes	1
C0905	South Florida Regional Planning Council	\$ 194,000	Contract	Yes	Yes	Yes	Yes	Yes	No	1
S0006	Space Florida	\$ 7,000,000	Grant	Yes	Yes	No	Yes	No	Yes	2
P0073	The Tampa Bay Innovation Center	\$ 400,000	Grant	Yes	Yes	No	No	No	Yes	3
C0710	Women's Resource Center of Sarasota	\$ 245,850	Grant	No	Yes	Yes	Yes	No	Yes	2
TOTAL NUMBER OF AGREEMENTS WITH DEFICIENCIES				4	3	7	6	17	12	

* Relying on prior review by this office