



CHIEF FINANCIAL OFFICER  
**JIMMY PATRONIS**  
STATE OF FLORIDA

August 13, 2018

Celeste Philip, MD, MPH, Secretary  
Florida Department of Health  
4052 Bald Cypress Way  
Tallahassee, FL 32399

Dear Secretary Philip:

As authorized in sections 17.03, 215.971(3), and 287.136, Florida Statutes, the Department of Financial Services has conducted an audit of the Florida Department of Health's contract deliverables monitoring processes and selected contract and grant agreements. Our audit, conducted by the Division of Accounting and Auditing, Bureau of Auditing, focused on contracts/agreements active from January 1, 2017, through December 31, 2017, and/or closed after June 30, 2017.

The results of our audit are included in the enclosed audit report. Please provide the Department's response and a corrective action plan to address the findings and recommendations in the report. In addition, the Division of Accounting and Auditing would like to offer to the Department specialized training classes with regards to the audit findings. If you have any questions, please contact Ms. Kim Holland, Bureau Chief, at (850) 413-5700 or [Kim.Holland@MyFloridaCFO.com](mailto:Kim.Holland@MyFloridaCFO.com).

We appreciate the support and courtesy extended to our audit team. Completed reports of the Bureau of Auditing are available at <https://www.myfloridacfo.com/Division/AA/AuditsReviews/default.htm>.

Sincerely,

  
Paul Whitfield

PW/jf  
Enclosure

c: Mr. Michael J. Bennett, Inspector General  
Mr. Antonio Dawkins, Director, Office of Contracts



**JIMMY PATRONIS**  
**CHIEF FINANCIAL OFFICER**  
**STATE OF FLORIDA**

Florida Department of Financial Services

STATUTORY AUDIT  
CONTRACT DELIVERABLES MONITORING  
FLORIDA DEPARTMENT OF HEALTH

AUGUST 13, 2018

AUDIT AUTHORITY

The Department of Financial Services has performed an audit of the Florida Department of Health's (Department) contract deliverables monitoring processes and selected contract and grant agreements. Authority for this audit is provided by sections 17.03, 215.971(3), and 287.136, Florida Statutes (F.S.). Our audit focused on contract and grant agreements active from January 1, 2017, through December 31, 2017, and/or closed after June 30, 2017.

SUMMARY OF RECOMMENDATIONS

While the Department has worked to improve its contract monitoring processes, and has provided wide-ranging guidance, resources, and training to contract managers, the design and implementation of those monitoring processes could be further improved to better demonstrate in the public record the completeness of required deliverables and whether all expenditures reported for the contract period were incurred and allowable for the purposes of the agreement.

- Deliverables Monitoring – The Department should provide additional guidance to contract managers regarding the activities and methods necessary for obtaining and evaluating evidence of the accomplishment and receipt of invoiced deliverables. Improving the activities and methods for evaluating deliverables would provide greater assurance in Department contract files that invoiced deliverables had been completed and met the contracted performance standards for quality, quantity, and timeliness.
- Expenditure Reviews – The Department should strengthen its guidance to contract managers regarding the timing and extent of required reviews of contractor-reported expenditures, and further emphasize that contract managers must request and review detailed contractor/provider documentation. This would promote more reliable determinations as to whether contractor-reported costs were incurred and allowable for completion of the required deliverables. For travel expenditures, the Department should continue its efforts to communicate to contract managers the applicability of s. 112.061, F.S.
- Programmatic Monitoring – The Department should require more detailed descriptions and written analyses of the documentation or other information reviewed by staff when conducting programmatic monitoring. This would improve the reliability of the Department's monitoring conclusions and provide better of-record support for future contract actions.
- Grant Closeout – The Department should strengthen its guidance to contract managers for preparing the final funds reconciliation required by s. 215.971(2)(c), F.S., and identifying end-of-contract financial matters that may require resolution. More specific guidance would assist contract managers in performing complete and reliable final reconciliations.

- Recipient/Subrecipient vs. Vendor Determinations – The Department should emphasize to contract managers the requirement for the timely and accurate analysis of the Department’s relationship with contractors. Inaccurate determinations of recipient/subrecipient relationships increase the risk that the contractor and Department will not have an up-front awareness of their respective responsibilities under the applicable State and/or Federal guidelines for resource and grant management.

**Findings and Recommendations** – These summarized audit results are discussed in further detail under the applicable headings within this report. We recommend that Department management consider and use these findings and recommendations as a basis for improving the Department’s contract monitoring processes. In addition, we recommend the Department’s contract managers participate in our newly offered specialized training regarding these findings.

## DELIVERABLES MONITORING

The Department of Health has worked to establish a contract monitoring process which generally includes the components required by Chief Financial Officer (CFO) Memo No. 06 (2011-2012), Contract Monitoring and Documenting Contractor Performance, such as monitoring plans, risk assessment, procedures and criteria, and corrective action plans. Notable elements of the Department’s implementation include requirements for annual programmatic monitoring, triennial administrative monitoring, quarterly expenditure review, and year-end contract reconciliation. Primary responsibilities for these monitoring efforts are placed with the assigned contract managers. The Department has communicated its monitoring process through a Contract Manager’s Monitoring Guide and the presentation of various monitoring forms, tools, and templates within the Office of Contracts’ intranet site regarding contract administration. The Department also conducts formal training of contract managers on their monitoring responsibilities.

While these efforts demonstrate a commitment by management to improve the Department’s monitoring of contractor performance, we found that, for the contracts<sup>1</sup> reviewed on audit, contract managers had not yet fully implemented the required monitoring processes. Also, certain elements of the monitoring effort could be improved to more effectively and timely evaluate contractor performance.

The cornerstone of an effective contract monitoring process is the timely, independent verification of invoiced deliverables. Department contracts, within the period audited, were typically identified as fixed price/fixed fee in nature and required the monthly or quarterly invoicing of deliverables. For such invoices, the contract manager’s primary responsibility<sup>2</sup> is to determine whether, and provide written certification that, required deliverables have been provided and documented as meeting the contracted performance standards for quality, quantity, and timeliness. Many contract files provided for review included evidence of meaningful verification efforts. Also, in our audit interviews with contract managers and program personnel, Department staff often demonstrated a notable hands-on knowledge of contractor progress in meeting the required deliverables. However, we noted instances in which contract manager activities and methods for obtaining evidence of the accomplishment and receipt of invoiced deliverables could be improved.

- For example, some contract files provided for review did not include evidence of contract manager efforts to independently verify that invoiced deliverables had been completed and met the contracted performance standards for quality, quantity, and timeliness. That is, the contract manager approved the invoice for payment based solely on contractor attestations of performance.
- For other invoices, although some deliverables-related documentation had been submitted or requested, the contract file did not otherwise include the contract manager’s written analysis as to whether such documents reliably demonstrated the completion of the invoiced deliverables. Such a written analysis would not only provide an of-record basis for approving the current invoice for

<sup>1</sup> Seventeen contracts and agreements with annual award amounts totaling approximately \$20,260,000.

<sup>2</sup> Section 215.971(2)(b), F.S.; CFO Memo No. 06 (2011-2012); and Reference Guide for State Expenditures, Invoice Requirements.

payment, but would also provide support for future contract actions, including the required final funds reconciliation.

- As noted above, Department staff often demonstrated a notable hands-on knowledge of contractor progress in meeting the required deliverables. Also, some contract files included on-point correspondence with the contractor relating to the performance of the deliverables. For some invoices, a written summarization of such knowledge and correspondence would have provided better support for the contract manager's certification of the completion of deliverables.

As described above, the Department's fixed price/fixed fee contracts required the monthly or quarterly invoicing of deliverables, not the costs or expenditures incurred. Upon conclusion, fixed price/fixed fee contracts for State and Federal awards become cost reimbursable contracts, subject to the final funds reconciliation required by s. 215.971(2)(c), F.S., and other cost guidelines. Accordingly, contract managers are responsible for determining throughout the contract period, and documenting in the contract file, whether the contractor/provider received compensation only for the actual allowable, reasonable, and necessary costs incurred in performing the contract deliverables.

In this regard, Department contracts required contractors/providers to maintain sufficient documentation that expenditures were allowable, reasonable, and necessary for performing the contracted deliverables, and submit, separately from the deliverables invoice, expenditure reports (quarterly, annually, and/or final) certifying the expenditures made in performing under the contract. For contract manager reviews of contractor-reported expenditures, we noted the following:

- The contract files provided for review did not always evidence that the contract manager had requested and reviewed contractor/provider documentation of the personnel and other costs incurred and the relationship of those costs to the performance of the deliverables. Some contract files included only limited comparisons of contractor-reported expenditures by category to similarly high-level summary documents such as contractor charts of accounts and general ledgers.
- Also, many contract files did not include completed quarterly financial reviews and tests of expenditures as prescribed by the Monitoring Guide. Further, as implemented, the quarterly financial review is only required for one quarter of each contract year and the related testing tool requires testing of only a few of the contractor-reported expenditures.
- For six contracts with travel costs totaling over \$47,000, the contract files reviewed generally did not evidence contract manager efforts to evaluate the nature and purpose of the travel and whether the travel expenditures complied with s. 112.061, F.S. The contract managers generally had made no requests for detailed travel documentation and the contract files did not include the Department's quarterly expenditure testing tool or otherwise describe the contract managers' testing of travel expenses.
- The Monitoring Guide and its tools and templates provide guidance for performing a year-end contract reconciliation of contractor-reported expenditures. However, most contract files provided for review did not evidence that contract managers had begun performing such year-end reconciliations. Further, the guidance only required comparisons of contractor-reported expenditures, which were typically summarized by category rather than listed in detail, to similarly high-level summary documents such as contractor charts of accounts and general ledgers. The guidance did not require that the contract manager request and evaluate more detailed contractor/provider documentation of the personnel and other costs incurred and the relationship of those costs to the performance of the deliverables or, alternatively, reference to evaluations of such detailed documentation made throughout the year being reconciled.

Without a reasonably thorough review, throughout the contract period, of detailed documentation of contractor-reported expenditures, Department personnel responsible for approving deliverables for payment and for performing the final funds reconciliation will have limited assurance that the contractor/provider

received compensation only for the actual allowable, reasonable, and necessary costs incurred in performing the contract deliverables.

In addition to the timely, independent verification of invoiced deliverables, other required Department monitoring processes, such as programmatic and fiscal monitoring, can provide corollary evidence for the accomplishment and receipt of required deliverables. The required annual programmatic monitoring provides the opportunity for knowledgeable program personnel to make a detailed evaluation of the contractor's/provider's performance. The required triennial administrative monitoring provides assurance that the contractor/provider meets applicable State and Federal administrative requirements and is properly managing and accounting for Department-provided funds.

The contract files provided for review generally included evidence of both programmatic monitoring and fiscal monitoring. For programmatic monitoring, the contract files typically included a programmatic contract monitoring tool (template), updated to include the contracted tasks and deliverables. For most contracts, the completed tool's "Ratings Based Upon" column included the types of information reviewed for the listed contract requirements; for example, a "D" indicated the rating was based on a review of documentation. However, in most instances, a description of the documentation or other information was not provided. Also, some contract files did not further describe the contract manager's analysis as to whether such information reliably demonstrated the completion of the contract deliverables. Without clear descriptions and written analyses of the documentation or other information reviewed, the contract file does not provide an of-record basis for the monitoring conclusions, or provide support for future contract actions, including invoice approval, contract closeout, and the required final funds reconciliation.

The measure of a contract monitoring process is the extent to which it reliably demonstrates the completeness of required deliverables and whether all expenditures reported for the contract period were incurred and allowable for the purposes of the agreement. In that regard, CFO Memo No. 06 (2011-2012) requires that monitoring activities must be adequate to provide reasonable assurance that contract deliverables have been provided as required by the agreement. Our audit findings show that, as designed and implemented, the Department's contract monitoring process does not yet reliably accomplish such reasonable assurance. We recommend that the Department consider these findings and take the actions necessary to improve its contract monitoring process to better demonstrate in the public record the completeness of required deliverables and the allowability of provider compensation.

## GRANT CLOSEOUT

Section 215.971(2)(c), F.S., provides that the grant manager shall reconcile and verify all funds received against all funds expended during the grant agreement period and produce a final reconciliation report. The primary purpose of this required reconciliation is to ensure that any funds paid that exceed the amount to which the recipient or subrecipient is entitled under the terms and conditions of the agreement will be refunded to the state agency. For Department contracts with Federal awards, 2 CFR §200.343 and §200.403<sup>3</sup> provide related requirements for award closeout and the allowability of costs, respectively.

- The Department's grant agreements generally provide that recipient records evidencing the allowability and purpose of expenditures and the completeness of required deliverables be properly auditable, retained, and accessible.
- To ensure the reliability of the grant closeout and reconciliation, the contract manager should obtain supporting documentation from the recipient and perform appropriate analyses as necessary to demonstrate expenditures reported by the recipient for the agreement period were incurred and allowable for the purposes of the agreement.

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<sup>3</sup> 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

- In completing this reconciliation, the contract manager should also make a final evaluation of whether contractor representations regarding the completeness of required deliverables could be demonstrated by review and analysis of recipient and Department records.

The Department's contract monitoring process includes guidance for quarterly expenditure reviews and year-end contract reconciliations, but not the final reconciliation and verification of funds required by s. 215.971(2)(c), F.S. For the grant agreement closeouts reviewed, the contract managers in several instances prepared quarterly expenditure reviews or year-end contract reconciliations in lieu of a final reconciliation and verification of funds. Further, for the limited reviews and reconciliations performed, the grant agreement files provided for review did not always include supporting documentation from the recipient and/or evidence of contract manager analyses necessary to demonstrate all expenditures reported by the recipient for the contract period were incurred and allowable for the purposes of the agreement. Absent a properly completed final reconciliation and verification of funds, Department management lacks assurance that any funds paid that exceed the amount to which the recipients were entitled have been identified and refunded to the Department.

At the close of a grant agreement, and in support of the final funds reconciliation, contract managers are responsible for identifying end-of-contract financial matters that may require refund, assessment, and/or collection. These matters include advances, disallowed costs, pending corrective actions or financial consequences, property, etc. Generally, for the closeout files provided for review, the contract manager had not documented actions taken to identify such matters. The Monitoring Guide does not include guidance to assist contract managers in identifying such matters; resolving the amounts in question; completing the necessary refund, assessment, or collection; and appropriately reporting such amounts, such as in the final funds reconciliation report discussed above. For the contract files provided for review, we noted the following examples of financial matters which should be considered for final resolution at grant closeout:

- For one grant agreement, the contract file included several amendments relating to the timing for deliverables and the contract period, an extension, an overlapping renewal, and several efforts to determine and assess financial consequences. However, the closeout file included no evidence of contract manager analyses to determine the impact of these conflicting amendments and financial consequences on the final funds due for the agreement.
- For another agreement, the contract file included amendments and budgets with conflicting information regarding the quarterly invoice amounts, and documented the assessment of three separate financial consequences totaling approximately \$25,000. The provider submitted a final quarterly financial report with total expenditures of approximately \$495,600 and remitted a self-determined refund of approximately \$146,100. However, the final report did not reference the \$25,000 in financial consequences, and the contract file did not otherwise describe how the \$25,000 was considered in determining the refund amount.

The Department's contract monitoring process includes guidance for closeout of the grant agreement file. However, that guidance and related file closeout checklists asked only if the provider had earned and expended all contract funds, but did not otherwise address a final contract manager review and certification as to the completeness of required deliverables. For the grant agreement files reviewed, some had program-specific closeout checklists that included a contract manager certification of deliverables. However, other grant agreement files reviewed did not include such certification or otherwise demonstrate the contract manager's final review and determination as to the completeness of required deliverables. Absent such final review and determination, management lacks assurance that the total shown in the final funds reconciliation as the amount to which the recipient or subrecipient is entitled is appropriate.

We recommend that the Department provide additional guidance for the grant closeout process that addresses the funds reconciliations required by s. 215.971(2)(c), F.S., the identification of end-of-contract financial matters pending disposition, and documentation of an overall review of the accomplishment and receipt of contract deliverables.

## RECIPIENT/SUBRECIPIENT VS. VENDOR DETERMINATIONS

The Department provides both State and Federal resources to nonstate entities for performing many of the programs, activities, and functions for which the Department is responsible. When the Department's relationship with the contractor is such that the contractor has responsibilities for programmatic decisions, adherence to resource compliance requirements, eligibility determinations, etc., the contractor should be considered a recipient/subrecipient, subject to the applicable State and/or Federal guidelines for resource and grant management.

For three contracts reviewed, the Department had evaluated its relationship with the contractor and incorrectly determined that a vendor relationship existed, not a recipient/subrecipient relationship, or that the contractor was an exempt organization. As a result, there was increased risk that the contractor and Department would not meet their respective responsibilities under the applicable State and/or Federal guidelines for resource and grant management.

- For one contract, matching was required for the provided resources, but contractor responsibilities regarding such matching had not been communicated because of the initial vendor determination. Subsequently, the Department revised its determination, closed the contract, and entered a new contract that included the applicable resource and grant management requirements. However, the contract file did not evidence a follow-up review of the matching required under the initial contract.
- For another contract, the Department subsequently revised its determination to identify the contractor as a recipient/subrecipient, and included the applicable resource and grant management requirements in a contract renewal and amendment.
- The third contract had not been revised to properly reflect the recipient/subrecipient relationship with the contractor.

The Department's Office of Contracts should review these agreements and evaluate whether both the contractor and Department met their respective responsibilities regarding the applicable State and/or Federal guidelines for resource and grant management, such as completing a final funds reconciliation.

## DEPARTMENT OF HEALTH'S RESPONSE

The Department's response to the findings and recommendations in this report is attached.

Direct inquiries regarding this report to Kim Holland, Bureau Chief, at (850) 413-5700 or [kim.holland@myfloridacfo.com](mailto:kim.holland@myfloridacfo.com). Completed reports of the Division of Accounting and Auditing, Bureau of Auditing, are available at <https://www.myfloridacfo.com/Division/AA/AuditsReviews/default.htm>.

**Mission:**

To protect, promote & improve the health of all people in Florida through integrated state, county & community efforts.



**Rick Scott**  
Governor

**Celeste Philip, MD, MPH**  
Surgeon General and Secretary

**Vision:** To be the **Healthiest State** in the Nation

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September 11, 2018

Mr. Jimmy Patronis  
Chief Financial Officer  
Florida Department of Financial Services  
200 East Gaines Street  
Tallahassee, FL 32399-0393

Dear Mr. Patronis:

We are pleased to respond to the audit findings and recommendations made during the Florida Department of Financial Services' audit of the *Department of Health's Contract Deliverables Monitoring*. Our response to the findings, as required by Section 215.971(3)(b), *Florida Statutes*, is enclosed.

We appreciate the efforts of you and your staff in assisting to improve our operations. Please contact our Director of Auditing, Mark H. Boehmer, CPA, by calling (850) 245-4150, should you have any questions.

Sincerely,



Celeste Philip, MD, MPH  
Surgeon General and Secretary

CP/akm  
Enclosure

cc: Michele Tallent, Deputy Secretary for Operations  
Mark H. Boehmer, CPA, Director of Auditing



## Status of Corrective Action Plans



**Report Title:** Department of Health's Contract Deliverables Monitoring  
**Report Date:** August 13, 2018

No.	Finding	Recommendation	Management Response	Corrective Action Plan
1	Contract managers had not yet fully implemented the required monitoring processes. Also, certain elements of the monitoring effort could be improved to more effectively and timely evaluate contractor performance.	(1.1) The Department of Health (Department) should provide additional guidance to contract managers regarding the activities and methods necessary for obtaining and evaluating evidence of the accomplishment and receipt of invoiced deliverables. Improving the activities and methods for evaluating deliverables would provide greater assurance in Department contract files that invoiced deliverables had been completed and met the contracted performance standards for quality, quantity, and timeliness.	We concur.	<p><b>(1.1) Not Yet Initiated.</b></p> <p>The Office of Contracts will update the Department's monitoring guidelines to provide additional guidance to contract managers regarding monitoring activities and methods to be used by contract managers to validate performance of invoiced deliverables. Additionally, the Office of Contracts will develop tools to be used during the invoice approval process to document that invoiced deliverables met the performance requirements as outlined in the contract.</p> <p>Updates to the Department's monitoring guidelines and tools developed for contract manager use will be communicated to the county health departments (CHDs), Children Medical Services area offices, and divisions. Additionally, the monitoring activities and methods as well as tools developed to document that invoiced deliverables met the performance requirements as outlined in the contract will be incorporated in the Department's Contract Management Workshop offered to the contract managers.</p>

*Anticipated Completion Date: February 28, 2019*

Audit Findings - Department of Health's Contract Deliverables Monitoring

No.	Finding	Recommendation	Management Response	Corrective Action Plan
		<p>(1.2) The Department should strengthen its guidance to contract managers regarding the timing and extent of required reviews of contractor-reported expenditures, and further emphasize that contract managers must request and review detailed contractor/provider documentation. This would promote more reliable determinations as to whether contractor-reported costs were incurred and allowable for completion of the required deliverables. For travel expenditures, the Department should continue its efforts to communicate to contract managers the applicability of s. 112.061, <i>Florida Statutes</i> (F.S.).</p>	<p>We concur.</p>	<p><b>(1.2) Not Yet Initiated.</b></p> <p>The Office of Contracts will update the Department's monitoring guidelines and monitoring tool instructions to aid contract managers in identifying and obtaining greater detailed expenditure documentation to validate contractor-reported costs were incurred and allowable for completion of the required deliverables. Additionally, the Office of Contracts will strength its coverage of expenditure documentation selection and review, including travel related expenditures, in the Department's Contract Management Workshop offered to the contract managers.</p> <p><i>Anticipated Completion Date: February 28, 2019</i></p>
		<p>(1.3) The Department should require more detailed descriptions and written analyses of the documentation or other information reviewed by staff when conducting programmatic monitoring. This would improve the reliability of the Department's monitoring conclusions and provide better of-record support for future contract actions.</p>	<p>We concur.</p>	<p><b>(1.3) Not Yet Initiated.</b></p> <p>The Office of Contracts will update the Department's monitoring guidelines, monitoring tools, and reporting templates to provide more detailed guidance and instructions to contract managers regarding written monitoring analyses of programmatic performance to improve monitoring conclusions and support for future contract actions.</p> <p>Updates to the Department's monitoring guidelines, monitoring tools and reporting templates developed for contract manager use will be communicated to the CHDs, Children Medical Services area offices, and divisions.</p> <p><i>Anticipated Completion Date: February 28, 2019</i></p>

Audit Findings - Department of Health's Contract Deliverables Monitoring

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|---|--|--|------------|---|
| 2 | Grant agreement files did not always include supporting documentation from the recipient and/or evidence of contract manager analyses necessary to demonstrate all expenditures reported by the recipient for the contract period were incurred and allowable for the purposes of the agreement. | The Department should strengthen its guidance to contract managers for preparing the final funds reconciliation required by s. 215.971(2)(c), <i>F.S.</i> , and identifying end-of-contract financial matters that may require resolution. More specific guidance would assist contract managers in performing complete and reliable final reconciliations.  | We concur. | <b>Not Yet Initiated.</b>   |
|   |  |  |            | The Office of Contracts will update the Department's monitoring guidelines, the annual and final contract reconciliation tools, and instructions to aid contract managers in completing fund reconciliations.   |
|   |  |  |            | Updates to the Department's monitoring guidelines, the annual and final contract reconciliation tools, and instructions to aid contract managers in completing fund reconciliations will be communicated to the CHDs, Children Medical Services area offices, and divisions. Additionally, fund reconciliation activity will be updated and incorporated in the Department's Contract Management Workshop offered to the contract managers.   |
|   |  |  |            | Anticipated Completion Date: February 28, 2019  |
| 3 | The Department incorrectly determined that a vendor relationship existed, not a recipient/subrecipient relationship, or that the contractor was an exempt organization.  | The Department should emphasize to contract managers the requirement for the timely and accurate analysis of the Department's relationship with contractors. Inaccurate determinations of recipient/subrecipient relationships increase the risk that the contractor and Department will not have an up-front awareness of their respective responsibilities under the applicable State and/or Federal guidelines for resource and grant management. | We concur. | <b>Not Yet Initiated.</b>   |
|   |  |  |            | The Office of Contracts will coordinate communications regarding timely and accurate analysis of the Department's relationship with contractors to the CHDs, Children Medical Services area offices, and divisions to ensure proper classifications are established prior to entering into a contract with contractors. Additionally, the Office of Contracts will continue to incorporate the contractor versus recipient/subrecipient relationship determination in the Department's Contract Management Workshop offered to the contract managers. |
|   |  |  |            | Anticipated Completion Date: February 28, 2019  |