



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

**REPORT IA 21-503**

## **OFFICE OF INSPECTOR GENERAL**

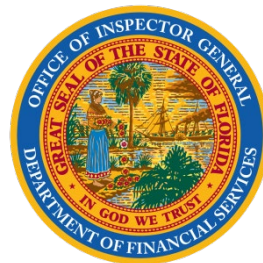
# **AUDIT REPORT ON CONTRACT ADMINISTRATION DIVISION OF STATE FIRE MARSHAL AND DIVISION OF ADMINISTRATION**

*Audit of Contract Administration by the Division of State Fire Marshal and the  
Division of Administration, Office of Purchasing & Contractual Services*

A handwritten signature in blue ink, appearing to read "David T. Harper".

David T. Harper, Inspector General  
Office of Inspector General  
Department of Financial Services

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## EXECUTIVE SUMMARY

The Department of Financial Services (DFS), Office of Inspector General (OIG) conducted an operational audit of the Division of State Fire Marshal (SFM) and the Division of Administration Office of Purchasing and Contractual Services (OPCS). The audit's purpose was to evaluate the quality of contract administration activities performed by the OPCS and the SFM pertaining to SFM grant disbursement agreements. Ten grant agreements from Fiscal Year (FY) 2019-2020 were selected for review of their compliance with both statewide and departmental requirements.

The engagement revealed an opportunity for the SFM to make improvements relating to grant monitoring and closeout. The grant administration activities taking place during the early stages of the grant lifecycle that would benefit from improvement include a detailed monitoring plan, the development of a monitoring tool and the performance of detailed cost analyses. Grant closeout activities that would benefit from improvement include the performance of thorough and complete programmatic closeout, fiscal closeout, and final reconciliation activities.<sup>1</sup>

To address these areas, the OIG recommends that the SFM strengthen its procedures to ensure that these essential functions are performed comprehensively and in a timely manner. Additionally, the OIG recommends that the SFM seek out training opportunities that will increase the knowledge of grant managers on the requirements and processes for the management of grants.

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<sup>1</sup> Specifically, pertaining to final reconciliation, 215.971(2)(c), requires, "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 final report must identify any funds paid in excess of the expenditures incurred by the recipient or subrecipient."

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## INTRODUCTION, BACKGROUND, AUDIT OBJECTIVES AND SCOPE

### Introduction

The Office of Inspector General (OIG), Internal Audit Section, conducted an operational audit of the Division of State Fire Marshal (SFM) and the Division of Administration Office of Purchasing and Contractual Services (OPCS). The audit's purpose was to evaluate the quality of contract administration activities performed by the OPCS and the SFM pertaining to SFM grant disbursement agreements. This audit was based on our FY 2020-2021 Annual Audit Work Plan and conducted in conformance with the Institute of Internal Audit (IIA) standards.

### Background

Effective contract administration plays a key role in ensuring fiscal accountability of taxpayer funds. In addition to performing contract reviews on a statewide basis within the Division of Accounting and Auditing, the Department of Financial Services (DFS, or the Department) also has charged the OPCS with guiding proper contract administration within the Department. The Office currently staffs six employees including a Purchasing Director and Assistant Purchasing Director who provide coordination on DFS purchases, procurements, and contracts.

The SFM Bureau of Standards and Training administers the Firefighter Assistance Grant Program, which is authorized by Sections 633.135, Florida Statutes (F.S.), and 69A-37.502, Florida Administrative Code (FAC), to provide state financial assistance for volunteer and combination fire departments. The program provides funds for volunteer firefighter training, firefighter personal protective equipment (PPE), self-contained breathing apparatus equipment, and pumper fire apparatuses. Additionally, the Division is frequently awarded legislatively-manadated grants from the legislature which are frequently directed towards cities and counties for fire department and training projects.

On November 1, 2019, the DFS Division of Accounting and Auditing deactivated all previous Chief Financial Officer Memoranda (CFO Memos) and replaced them with new CFO Memos that applied to the Fiscal Year 2019-2020. Several of the memos addressed contract and grant fiscal requirements and included an update to the *Reference Guide for State Expenditures*.

### Audit Objectives and Scope

This audit was performed in response to the Departmental risk assessment performed by the OIG in June 2020 in which staff indicated a key risk to the Department is contract management. Because the Department administers a large volume of contracts, a decision was made to focus on those contracts that have been designated grant disbursement agreements due to the high level of fiscal accountability that is required of them by Chapter 215, F.S. The SFM administers the most grant disbursement agreements in the Department.

The engagement's objectives were the following:

1. To determine whether proper controls are in place to ensure SFM grants are administered properly by the SFM.
2. To determine whether proper controls are in place to ensure the OPCS is performing enough

contract administration oversight for SFM grants.

The engagement's scope was the following:

To review the contract administration of ten SFM grant disbursement agreements from the fiscal year 2019-2020. Activities performed by both the SFM and OPCS will be reviewed. Contract administration for this audit will be defined as contract management activities from contract execution through close-out. Procurement is not part of this scope. Contract administration activities to be reviewed will include contract execution, state project and recipient determinations, conflicts of interest, grant manager training and certification, Florida Accountability Contract Tracking System (FACTS) website recording, cost analyses, risk assessments, contract monitoring plan and tool development, contract monitoring, deliverable review and approval, invoice review and approval, expenditure tracking, close-out, and expenditure reconciliation per Section 215.971, FS.

## FINDINGS AND RECOMMENDATIONS

### **Finding 1: Cost Analyses**

Florida Statutes require that state agencies perform cost analyses of any "person or entity that is designated by the General Appropriations Act, or that is awarded funding on a noncompetitive basis."<sup>2</sup> CFO Memo 1 has clarified that all grant disbursement agreements must receive a cost analysis in order to "evaluate individual cost elements for allowability, reasonableness, and necessity."<sup>3</sup>

Of the ten grant administration files reviewed,

- Cost analyses were not provided for six grants;
- One grant award contained a cost analysis form that was dated after the grant agreement had expired;
- One grant file contained a cost analysis form that was not signed and dated;
- Two grant award files contained forms that were signed, however, the OIG could not

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<sup>2</sup> Section 216.3475, Florida Statutes, "Maximum rate of payment for services funded under General Appropriations Act or awarded on a noncompetitive basis," indicates the following: "A person or entity that is designated by the General Appropriations Act, or that is awarded funding on a noncompetitive basis, to provide services for which funds are appropriated by that act may not receive a rate of payment in excess of the competitive prevailing rate for those services unless expressly authorized in the General Appropriations Act. 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."

<sup>3</sup> Chief Financial Officer Memorandum 1 states, "Section 215.971, F.S. requires agreements that provide state or federal financial assistance to recipient/sub-recipients to include provisions for the recipient/sub-recipient to expend funds only for allowable costs, to return unobligated funds, and to return funds paid in excess of the amount the recipient/sub-recipient was entitled to receive. Based on these requirements, agencies will be required to conduct a cost analysis of the proposed detailed budget submitted by the recipient/sub-recipient to ensure projected costs are appropriate. The agency's analysis of the submitted budget will consist of evaluating individual cost elements for allowability, reasonableness, and necessity. Part of evaluating "reasonableness" will also include evaluating direct costs. Agencies are required to maintain all documentation to support the evaluation and completion of the cost analysis."

- determine whether they were signed in an appropriate timeframe; and
- Four grant award files contained a certified cost analyses, however, supporting documentation evidencing the methodology used and the conclusions reached were not provided.

Leadership stated in subsequent discussion that the contract managers were not fully trained in the management of grants and as such could use additional training to fully understand the requirements for the cost analysis.

Absent the performance of an adequate cost analysis, the risk is increased that the Department will fail to deter and detect fraudulent activity within the grants.

### **Recommendation**

The OIG recommends that the SFM strengthen procedures to ensure that cost analyses are completed correctly and in a timely manner for all grant agreements. Additionally, the OIG recommends that the SFM seek out training opportunities that will enhance the grant managers' understanding of the performance of the cost analysis.

### **Finding 2: Monitoring Plans**

The monitoring of grants is an integral part of ensuring that grant moneys are appropriately spent for the commodities and services specified in a grant agreement. As such, it is important for a grant manager to prepare an adequate monitoring plan at the beginning of a grant agreement and perform periodic monitoring of the grant as specified in the monitoring plan. CFO Memo Five requires that contract and grant managers have a formal contract monitoring process which includes a risk assessment, monitoring plan, monitoring procedures and criteria, and "evidence to support conclusions reached during its monitoring process." The OPCS reiterates these requirements for Department-managed contracts and grants in the *DFS Contract Management Life Cycle and Procurement Guide*.<sup>4</sup>

While monitoring plans were provided for each of the ten grant files, key elements of the monitoring plans were deficient or missing. Specifically, the monitoring plan provided did not include the following:

- Project monitoring tools to be used by the grant managers
- Identification of the criteria and the evidence to be used to support the grant manager's conclusions during the monitoring process.

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<sup>4</sup> Section 5.4.8, "Develop a Contract-Specific Monitoring Plan" on page 33 of the *DFS Contract Management Life Cycle and Procurement Guide*, states "The contract-specific monitoring plan developed by the division or program identifies the monitoring activities that will be performed in connection with the contract, including the frequency and method for conducting the activities and who will perform them. The plan should also identify the monitoring tools that will be used to document the results of monitoring activities."

Additionally, it was noted that although the monitoring plans were provided, the OIG was unable to determine that the monitoring plans were completed at the beginning of the grant process.

Leadership stated in subsequent discussion that the contract managers were not fully trained in the management of grants and as such could use additional training to fully understand the requirements of grant monitoring.

Absent the performance of an adequate monitoring plan and process, the risk is increased that the Department will fail to deter and detect fraudulent activity within the grants.

### **Recommendation**

The OIG recommends that the SFM strengthen procedures to ensure that monitoring plans are completed correctly and in a timely manner for all grant agreements. Additionally, the OIG recommends that the SFM seek out training opportunities that will enhance the grant managers' understanding of the monitoring requirements and the process for completing and implementing a monitoring plan.

### **Finding 3: Programmatic Closeout, Fiscal Closeout and Final Reconciliation**

Through *Agency Policy and Procedure 2-03, Contract Management*, and the *DFS Contract Management Life Cycle and Procurement Guide*, the Department has established detailed programmatic and fiscal closeout procedures. These requirements include validating that performance standards and term and conditions have been met, that a final financial report has been reviewed and approved, and that an audit of reported costs has been performed.<sup>5</sup> Section 215.971(2)(c), F.S. and CFO Memo four also require that grant managers produce a final reconciliation report.<sup>6</sup>

Review of the eight closed grant files revealed that Programmatic Closeout, Fiscal Closeout and Final Reconciliation per Section 215.971(2)(c), F.S. were not performed properly.

Specifically, although a Contract Closeout Checklist, Attachment P from the *DFS Contract Management Life Cycle and Procurement Guide*, was completed showing programmatic closeout was performed, documentation did not show that all grant terms and conditions and performance standards were met.

- One grant agreement stated, "The grantee must submit an inventory report to the Department with the final expenditure report and inventory annually and maintain accounting records for all nonexpendable property purchased under the Agreement." However, the grant contract files do not show that the grantee submitted the required

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<sup>5</sup> See Section 8.1, Programmatic Closeout, and Section 8.2, Fiscal Closeout, on pages 68-69 of *DFS Contract Management Life Cycle and Procurement Guide* for more detail.

<sup>6</sup> Chief Financial Officer Memorandum No. 4, *To Provide Guidance on All Contractual Service and Grant Agreements*, specifies, "Agencies should have policies and procedures that address the agency's final reconciliation report and the supporting documentation obtained from each provider to demonstrate the validity and the appropriateness of the amounts expended during the grant period."

inventory report or the final expenditure report.

- The grant agreements for three grants for PPE require the grant manager to validate the equipment was received by the designated individuals. However, the grant files do not contain documentation to support the grant manager validated that the PPE was received by the designated individuals.

Additionally, although the Contract Closeout Checklist, Attachment P from the *Contract Management Life Cycle and Procurement Guide*, was completed indicating fiscal closeout was performed for the eight closed agreements, the grant contract files do not contain documentation showing that a fiscal closeout was performed correctly. Specifically, the grant contract files do not contain supporting documentation that evidences the final financial status report was received, reviewed, and approved for each grant, and that the reported costs were audited.

Further, because the files did not show that proper fiscal closeout was performed for the eight closed grants as required, they also failed to demonstrate that the division produced a sufficient final reconciliation report as required by 215.971(2)(c), F.S.

Leadership stated in subsequent discussion that the contract managers were not fully trained in the management of grants and as such could use additional training to fully understand the requirements of the programmatic closeout, fiscal closeout and reconciliation processes.

Absent the performance of an adequate programmatic closeout, fiscal closeout and a reconciliation process for grants, the risk is increased that the Department will fail to deter and detect fraudulent activity within the grants.

### **Recommendation**

The OIG recommends that the SFM strengthen procedures to ensure that closeout and reconciliation processes are completed correctly and in a timely manner for all grant agreements. Additionally, the OIG recommends that the SFM seek out training opportunities that will enhance the grant managers' understanding of the importance of the closeout and reconciliation processes and the process for completing such closeouts and reconciliations.

## **METHODOLOGY**

To accomplish engagement objectives, the OIG performed the following procedures:

- Performed a risk assessment.
- Completed a risks and controls matrix.
- Conducted research to identify statewide and agency-specific contract and grant administration requirements, including 215.97 and 215.971, F.S., the *Reference Guide for State Expenditures*, CFO Memos, Administrative Policy and Procedure 2-03, Contract Management, and the Department of Financial Services' *Contract Management Life Cycle and Procurement Guide*.
- Conducted interviews with key Division personnel.
- Researched and analyzed Department of Management Services and Department of Financial



Services contract manager training records and requested information from corresponding departmental staff.

- Researched and analyzed Department of State Division of Corporations records.
- Reviewed and analyzed the grant contract files for the ten selected State Fire Marshal grant disbursement agreements against the identified statewide and agency-specific contract and grant administration requirements.

## **MANAGEMENT'S RESPONSE**

The SFM responses are provided as an attachment and the DFS OIG agrees with the response.

## **ACKNOWLEDGEMENTS**

The OIG would like to thank Division of Administration and Division of State Fire Marshal leadership and staff for their input, cooperation, and assistance throughout the performance of this engagement.

The Office of Inspector General performs audits, consulting activities, and reviews of Department of Financial Services' programs, activities, and functions to promote accountability, integrity, and efficiency in state government.

This consulting engagement was conducted in conformance with The *International Standards for the Professional Practice of Internal Auditing*, published by The Institute of Internal Auditors, Inc., pursuant to Section 20.055, Florida Statutes, and *Principles and Standards for Offices of Inspectors General*, published by the Association of Inspectors General. This engagement was conducted by Crista Hosmer, CIGA, FCCM, Senior Auditor, under the supervision of Debbie Clark, CPA, CISA, CIGA, Director of Audit.

Please address inquiries regarding this report to the DFS Office of Inspector General at 850-413-3112.

## **DISTRIBUTION LIST**

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## ATTACHMENT

### RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

#### Finding 1: Cost Analyses

The audit disclosed that the Division of State Fire Marshal (SFM) did not perform cost analyses properly. While cost analysis forms were provided for four of the ten agreements, they did not contain documentation evidencing the methodology used and the conclusions reached. In addition, the OIG was unable to determine whether they were completed in the proper timeframe.

**Recommendation:** The OIG recommends that the SFM strengthen procedures to ensure that cost analyses are completed correctly and in a timely manner for all grant agreements. Additionally, the OIG recommends that the SFM seek out training opportunities that will enhance the grant managers' understanding of the performance of the cost analysis.

**Response:** The SFM did supply House/Senate Forms detailing the appropriated amounts and how the funds would be used. However, SFM did not supply the written methodology of how the funds were Allowable, Reasonable and Necessary. For future grants the SFM will provide a narrative of whether the funds were Allowable, Reasonable and Necessary.

**Expected Completion Date for Corrective Action:** Completed

#### Finding 2: Monitoring Plans

The audit disclosed that the SFM did not develop monitoring plans properly. While monitoring plans were provided, they did not identify the monitoring tools to be used and did not identify the criteria and the evidence to be used to support the grant manager's conclusions during the monitoring process. In addition, the OIG was unable to determine whether they were completed in the proper timeframe.

**Recommendation:** The OIG recommends that the SFM strengthen procedures to ensure that monitoring plans are completed correctly and in a timely manner for all grant agreements. Additionally, the OIG recommends that the SFM seek out training opportunities that will enhance the grant managers' understanding of the monitoring requirements and the process for completing and implementing a monitoring plan.

**Response:** SFM supplied email communications with grantees and completed all grants timely.

SFM has created an Excel spreadsheet which shows the monitoring highlights and associated dates of completion. Additionally, SFM is researching grant management software for all grant managers.

**Expected Completion Date for Corrective Action:** Spreadsheet completed.

### **Finding 3: Programmatic Closeout, Fiscal Closeout, and Final Reconciliation**

The audit disclosed that the SFM did not perform Programmatic Closeouts, Fiscal Closeouts, and Final Reconciliations properly. While Programmatic and Fiscal Closeout Checklists and Reconciliation memos were provided, they were not supported by evidence demonstrating that all of the cited closeout and reconciliation activities were performed.

**Recommendation:** The OIG recommends that the SFM strengthen procedures to ensure that closeout and reconciliation processes are completed correctly and in a timely manner for all grant agreements. Additionally, the OIG recommends that the SFM seek out training opportunities that will enhance the grant managers' understanding of the importance of the closeout and reconciliation processes and the process for completing such closeouts and reconciliations.

**Response:** All grant funding was reconciled with grantee's FACTS payments. In the future, SFM will include a narrative with the reconciliations. SFM has reviewed the training manuals to correctly learn the proper procedures for closeout and reconciliation of the grant files.

**Expected Completion Date for Corrective Action:** Completed