AUDITOR GENERAL
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DEPARTMENT OF CHILDREN AND FAMILY SERVICES

COMMUNITY-BASED CARE LEAD AGENCIES
TANGIBLE PERSONAL PROPERTY AND
INFORMATION TECHNOLOGY SECURITY

Operational Audit

SUMMARY

Section 409.1671, Florida Statutes, provides that it is the intent of the Legislature that the Department of Children and Family Services (Department) outsource the provision of foster care and related services Statewide. To meet the requirements of this statute, the Department has entered into contracts with 19 community-based care lead agencies (CBCs), each of which is responsible for the provision of services in one or more geographical areas of the State. In providing foster care and related services, some of the CBCs have contracted with case management organizations (CMOs).

At the inception of each contract between the Department and a CBC, property was either transferred by the Department to the CBC or funds were provided by the Department to purchase start-up property. The CBCs may also purchase property after start-up using subsequent contract payments. At the conclusion of the contract, the furniture and equipment transferred to the CBC or purchased through contract funds is to revert back to the custody and ownership of the Department.

Also, the contracts between the Department and the CBCs provided access to the Department's Florida Safe Families Network (FSFN), a child welfare and client management information system. The CBCs and the CMOs use FSFN to input case data and to manage child welfare services. To access FSFN, the CBCs and CMOs connect to the State's metropolitan area network (MAN) through a virtual private network (VPN), either directly or using connections from their networks.

In conducting our audit, we performed audit fieldwork at the Department and at the following CBCs: Family Services of Metro Orlando, Inc. (Metro Orlando), Family Support Services of North Florida, Inc. (Family Support Services), and Hillsborough Kids, Inc. (Hillsborough Kids). The Department's initial contracts for foster care and related services with the selected CBCs were executed in March 2004 for Metro Orlando, in July 2003 for Family Support Services, and in May 2001 for Hillsborough Kids.

This operational audit focused primarily on records and controls related to the initial transfer of property and on the accountability subsequently provided for tangible personal property during the period July 2006 through June 2007. Our audit also addressed information technology (IT) security controls relating to FSFN during the period August 2007 through November 2007. We also evaluated Department policies and procedures for monitoring CBC accountability over tangible personal property and IT security. The results of our audit are summarized below:

TANGIBLE PERSONAL PROPERTY

<u>Finding No. 1:</u> Lapses in property transfer procedures resulted in some unaccounted for property, the cost of which totaled approximately $181,500.

<u>Finding No. 2:</u> CBC policies and procedures did not always ensure that purchased property

items were timely recorded in CBC property records.

Finding No. 3: CBC policies and procedures did not always ensure appropriate documentation was retained in support of property items deleted from the property records.

Finding No. 4: CBC property records did not always contain information required by Department contracts and Federal regulations.

Finding No. 5: The Department's contract monitoring procedures could be enhanced to provide greater accountability over property transferred to CBCs and property purchased by CBCs through Department contracts.

Finding No. 6: At the CBCs, incompatible duties related to the acquisition and accountability of information technology property had been assigned.

Finding No. 7: Risk management policies and procedures of the CBCs did not ensure that insurance coverage was at appropriate levels to mitigate the risk of loss of furniture and equipment.

INFORMATION TECHNOLOGY SECURITY

Finding No. 8: The Department had not established procedures for monitoring the IT functions of the CBCs. In addition, the Department's reporting of FSFN security activities needed improvement.

Finding No. 9: Additional security controls protecting FSFN needed improvement. Specific details of the needed improvements are not disclosed in this report to avoid the possibility of compromising Department and CBC security.

Finding No. 10: Disaster recovery planning by the CBCs did not always include appropriate planning for the recovery of IT resources.

Finding No. 11: Certain environmental controls protecting CBC IT resources needed improvement.

Finding No. 12: Policies and procedures at Family Support Services were not current and lacked official adoption by the CBC.

<div style="background:yellow">**BACKGROUND**</div>

Section 409.1671, Florida Statutes, provides that it is the intent of the Legislature that the Department of Children and Family Services (Department) outsource

the provision of foster care and related services Statewide. To meet the requirements of this statute, the Department has entered into contracts with 19 community-based care lead agencies (CBCs), each of which is responsible for the provision of services in one or more geographical areas of the State.

At the inception of each contract, property was either transferred by the Department to the CBC or funds were provided by the Department to purchase start-up property. The CBCs may also purchase property after start-up using subsequent contract payments. At the conclusion of the contract, the furniture and equipment, transferred to the CBC or purchased through contract funds, is to revert back to the custody and ownership of the Department.

The Department shares with the CBCs a stewardship responsibility for the furniture and equipment provided to the CBCs and their case management organizations[1] (CMOs). Pursuant to this stewardship responsibility, the Department had included in CBC contracts or other documents provisions that required:

➢ Property transferred to the CBC shall have an initial inventory (as defined in Finding No. 1) and the initial inventory shall be agreed upon and signed by both the Department and the CBC. A complete inventory is to be prepared by the CBC and submitted to the Department annually thereafter.

➢ For property, as defined by the contract, that is purchased by the CBC with funds provided by the contract, the CBC shall inventory all such property and, on an annual basis, submit a complete inventory to the Department.

➢ Pursuant to the Tangible Personal Property Requirements[2] document, property that should be recorded in the property records includes: all computers[3] with an expected useful life of which at the time of transfer or

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[1] Case management organizations (CMOs) are subcontractors engaged by CBCs to provide various levels of foster care and related services, as specified in the contracts.

[2] Requirements related to nonexpendable property obtained or transferred under contract with the Department.

[3] The Hillsborough Kids contract requires that all computers and peripheral equipment be recorded in property records.

purchase is one year or more and equipment, furniture, fixtures, motor vehicles, and other personal property of a nonconsumable and nonexpendable nature, the original acquisition cost or estimated fair market value of which is $1,000 or more, and the expected life of which at the time of transfer or purchase is one year or more.

➤ Certain information shall be recorded in each CBC's property records. This information is to include, among other things, funding source, acquisition cost, and manufacturer's serial number.

Also, the contracts between the Department and the CBCs provided access to the Department's Florida Safe Families Network (FSFN), a child welfare and client management information system. The CBCs and the CMOs use FSFN to input case data and to manage child welfare services. To access FSFN, the CBCs and CMOs connect to the State's metropolitan area network (MAN) through a virtual private network (VPN), either directly or using connections from their networks.

Department contracts with the CBCs also require that effective information technology security policies and procedures be maintained. Such policies and procedures are necessary to ensure the protection and integrity of the data made available to the CBCs through the Department's information technology resources. Much of the data made available is confidential and is, therefore, to be protected.

Following the theft of gift cards from a CBC in February 2007, the CBC engaged a firm to perform an investigation into the theft. The resulting investigation report disclosed other serious issues at the CBC, including the theft of laptop computers; the lack of an accurate inventory of high-value property items, such as computers; and various information technology security issues.

In response to the issues identified by the investigation and a request for audit from the Secretary of the Department, the Joint Legislative Audit Committee directed the Auditor General to perform for the CBCs an assessment of the Statewide effectiveness of the system of internal controls for tangible personal

property and an assessment of information technology security.

In conducting our audit, we performed audit fieldwork at the Department and at the following CBCs: Family Services of Metro Orlando, Inc. (Metro Orlando), Family Support Services of North Florida, Inc. (Family Support Services), and Hillsborough Kids, Inc. (Hillsborough Kids). The Department's initial contracts for foster care services with the selected CBCs were executed in March 2004 for Metro Orlando, in July 2003 for Family Support Services, and in May 2001 for Hillsborough Kids.

This operational audit focused primarily on records and controls related to the initial transfer of property and on the accountability subsequently provided for tangible personal property during the period July 2006 through June 2007. Our audit also addressed information technology (IT) security controls relating to FSFN during the period August 2007 through November 2007. We also evaluated Department policies and procedures for monitoring CBC accountability over tangible personal property and IT security.

FINDINGS AND RECOMMENDATIONS

Tangible Personal Property

As described in Finding Nos. 1 through 7, our evaluation of the effectiveness of the CBCs and the Department's controls over tangible personal property (much of which consists of computers and computer-related equipment) disclosed that, overall, internal controls did not effectively provide for the safeguarding of tangible personal property and the production of reliable inventory reports relating to tangible personal property. Corollary to these control deficiencies is the potential loss of security over confidential data maintained on, or otherwise accessible through, the computer equipment.

Finding No. 1:   Initial Property Transfers

Upon initiation of the contract between the Department and the CBCs, certain property was transferred from the Department to the CBCs. The contract requires that "Before transferring property to

the provider [CBC] from the Department, all property to be transferred shall be inventoried, and the inventory shall be agreed upon and signed by both parties…The Department shall be responsible for adjusting the Department's property records [FLAIR Property Subsystem] to reflect this transfer and change of ownership."

Our audit procedures included reviewing the Department's property records to identify the property that was, according to the Department's property records, transferred to the three CBCs included within the scope of our audit. Using the applicable contract number shown in the "Disposition Document Number" field in the Department's property records, we identified property that was shown as transferred to the three selected CBCs. For these 577 property items, with Department acquisition costs of approximately $1.1 million, we attempted to verify the transfer by locating, in the applicable CBC's property inventories, the same item of property. The results of our comparisons disclosed that 68 property items with an aggregate cost to the Department of $181,531 could not be found in the property records of the applicable CBCs. Potential explanations for each of these variances included: the Department's property records were incorrect with respect to the Disposition Document Number shown; the item was not recorded in the property records of the CBC because the item's fair market value at the date of transfer may have been judged to be less than the CBC's capitalization threshold; or the item had been lost or stolen either prior or subsequent to the record date of transfer.

In an effort to establish a chain of accountability for the property items, we also requested of the Department documentation demonstrating that the property shown as transferred had been inventoried and that the inventory was agreed upon and signed by both the Department and the applicable CBCs. As shown in Table 1, further analysis disclosed evidence that the CBCs had signed for 39 of these 68 property items, with Department acquisition costs of $94,759. For 29 property items with an acquisition cost of $86,772, neither the Department nor the CBCs have been able to locate the property items or provide records providing an accounting for the property

items. The unaccounted for property items included, for example, laptop and desktop computers, servers, and printers.

Table 1

Unaccounted for Property Transferred to CBCs

CBC	Signed for by CBC	Not Signed for by CBC	Totals
Metro Orlando	$ 33,819	$ 76,181	$ 110,000
Hillsborough Kids	60,940	10,591	71,531
Totals	$ 94,759	$ 86,772	$ 181,531

Source: FLAIR Property Records and Department Transfer Documentation.

Absent accurate and complete records of the transfer transactions, the Department is unable to demonstrate that it has met its responsibilities to safeguard these public assets. Also, absent documentation signed by the CBCs evidencing the receipt of transferred property, the Department may be unable to hold the CBCs accountable for the return of property purportedly transferred to the CBCs.

Recommendation: We recommend that the Department reconcile the transfers of property, as reflected by its property records, to the transfers of property, as reflected by the transfer receipts signed by all of the CBCs, and investigate all differences. We also recommend that, where appropriate, the CBCs record in their subsidiary records and general ledger property accounts all transferred property.

Finding No. 2: Additions of Property Items to the Property Records

As indicated in the **BACKGROUND** section of this report, pursuant to the Tangible Personal Property Requirements document, property that should be recorded in CBC property records includes: all computers with an expected useful life of which at the time of transfer or purchase is one year or more and equipment, furniture, fixtures, motor vehicles, and other personal property of a nonconsumable and nonexpendable nature, the original acquisition cost or estimated fair market value of which is $1,000 or more, and the expected life of which at the time of transfer or purchase is one year or more. In addition to the items required by the contract, some CBCs have elected to include other items of property in their property records, such as cameras, digital telephones, printers, and monitors.

Our audit tests disclosed that CBC policies and procedures did not always effectively ensure that all property items, that, pursuant to contract or CBC policy were to be included in the property records, were included in the property records. Specifically, as part of our audit, we examined 102 purchase transactions (13 at Metro Orlando, 50 at Family Support Services, and 39 at Hillsborough Kids) that should have resulted in the recording of 766 new items in the property records. As shown in Table 2, our tests disclosed several items of property that were not added to the property records.

Table 2
Items of Property Not Recorded

Item Description	Hillsborough Kids[1]	Metro Orlando
Computers	92	
Cubicles	32	
Monitors	16	
Printers	9	
Servers	11	1
Totals	160	1

Source: CBC Purchase Documentation and Property Inventories.

[1] Hillsborough Kids' purchases of property greatly exceeded those of the other two CBCs because Hillsborough Kids purchased computer equipment for their CMOs, while the Metro Orlando and Family Support Services CMOs usually provided their own computer equipment. The cost of property purchased by Metro Orlando and Family Support Services was less than $100,000, while the cost of property purchased by Hillsborough Kids totaled more than $1,700,000.

In obtaining an understanding of the controls in place to reasonably ensure the recording of property items in the property records, we noted that account codes had not been established specifically for the purpose of capturing purchases of property that should be added to the property records. The establishment of such accounts would better facilitate periodic reconciliations of property item purchases to property record additions. Periodic reconciliations would provide reasonable assurance that all property items purchased have been recorded in the detailed property records.

Without effective procedures to ensure that all applicable property is added to the property records,

the CBCs ability to maintain accountability over property purchased with State funds is limited. Also, absent such accountability, the Department has reduced assurance of the accuracy and completeness of the inventory reports provided by the CBCs.

Recommendation: We recommend that the CBCs consider the establishment of account codes into which only purchases of property items shall be recorded. The information in these accounts should then be used to periodically reconcile property item purchases to property record additions and to make appropriate changes to the property records. We recommend that, as part of the Department's periodic monitoring procedures, the Department include steps to review these reconciliations.

Finding No. 3: Deletion of Property Items from the Property Records

Policies and procedures at the CBCs were either not followed or inadequate to ensure that documentation for disposed property items appropriately evidenced approval by management, the reason for the disposition, and any proceeds received. Furthermore, records relating to disposed property were sometimes purged from the CBCs' property records, thereby preventing an accounting for the property. More specifically, we found that:

➢ At Family Support Services, 74 property items were removed from the property records. These items were noted in a previous inventory list as having been damaged, stripped, discarded, surplused, or missing. The items consisted of computers, printers, and digital cameras. The CBC was able to provide documentation or an explanation for 5 of the items, leaving 69 items with a value of $48,405 that were deleted with no supporting documentation. Although Family Support Services had available a form titled "Transfer/Disposal/Donation of Property" for use when property was transferred, donated, or otherwise disposed of, the document was not used in these instances.

➢ At Family Support Services, 233 property items, valued at approximately $299,600, were transferred from the Department to the CBC and were not recorded in the property records. Family Support Services indicated that the items, consisting mostly of

computers, had been received and that the items were out-of-warranty and had been discarded as they became nonoperational. No documentation for the disposals was available.

➤ At Hillsborough Kids, 27 property items, valued at approximately $32,000 and including 22 laptop and 4 desktop computers, were identified as stolen. We were provided with documentation to support the disposition of 6 of these items, leaving 21 with no documentation, such as, for example, police reports, to support the assertion that the property items had been stolen.

➤ At Metro Orlando, the inventory system in use was a real-time system which provided information at a point in time. This system did not retain historical records for items that might have been removed from inventory due to transfer, disposal, donation, surplus, or theft since contract inception.

Absent adequate supporting documentation, the CBCs cannot show that they have properly accounted for the items, provide assurance that the items were disposed of in accordance with management's authorization, or in the case of items stolen, demonstrate that appropriate law enforcement agencies had been notified.

Recommendation: We recommend that records be maintained for all disposed property showing the reason for disposing of the property, management approval of the disposal, and identification of any proceeds received. Furthermore, we recommend that the CBCs ensure that their property systems do not purge the records of disposed property.

Finding No. 4:   Property Records

The contracts between the Department and the CBCs, as well as other CBC-related property documents, require that certain information be recorded in CBC property records. This information, included in the Tangible Personal Property Requirements or Lead Agency Property Inventory[4] documents, is to include, among other things, funding source, acquisition cost, and manufacturer's serial number. In addition, Title 2,

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[4] The Lead Agency Property Inventory document is a template describing the information the CBCs should include in the annual inventory submitted to the Department.

Section 215.34(f)(1), Code of Federal Regulations,[5] requires the recipient's property management standards for equipment acquired with Federal funds and Federally owned shall include all of the following: 1) a description of the equipment, including the manufacturer's serial number; 2) source of equipment, including the award number; 3) acquisition date; 4) information from which one can calculate the percentage of Federal participation in the cost of the equipment; 5) location and condition of the equipment and the date the information was reported; 6) unit acquisition cost; and 7) ultimate disposition data.

Our audit included a comparison of the information required by Department contracts and forms and Federal regulations to that included in the CBCs' property records. As indicated by the following, our audit disclosed that the property records at the CBCs did not always include the required information:

➤ Metro Orlando's property records did not include the acquisition cost for 1,244 of 2,282 property items.

➤ Metro Orlando's property records did not include the manufacturer's serial number for 23 of 553 property items that were identified as an item that should have a serial number.

➤ Family Support Services' property records did not include the acquisition cost for 32 of 674 property items.

➤ Family Support Services' property records did not include a field for funding source.

➤ Hillsborough Kids' property records did not include the acquisition cost for 476 of 1,761 property items.

➤ Hillsborough Kids' property records did not include the funding source for 1,479 of 1,761 property items.

Inconsistencies in Department guidance as to what should be included in the property records may have contributed to the instances in which the required data had not been included by the CBCs. As shown in

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[5] Title 2, Section 215, Code of Federal Regulations, establishes uniform administrative requirements for Federal grants and agreements to institutions of higher education, hospitals, and other nonprofit organizations. This section also provides that nonprofit organizations implementing Federal programs are also subject to state requirements.

Table 3, Department guidance, contained in three different sources, contained differing provisions.

Table 3
Minimum Requirements for Property Records
Based Upon Property Clauses in the Tangible Personal Property Requirements
And Lead Agency Property Inventory Documents

Tangible Personal Property Requirements 2.c. (2.b.)	Tangible Personal Property Requirements 3.b.	Lead Agency Property Inventory
Property decal number		
Description	Description	Description
Model number	Model number	
Manufacturer's serial number	Manufacturer's serial number	Manufacturer's serial number
Date of acquisition	Date of acquisition	
		DCF transfer date
		Lead agency purchase date
Original acquisition cost	Original acquisition cost	Original cost
Location	Location	Location
	Dispositions of property	Disposition remarks/comments
		Condition
	Funding source and information for calculating the Federal and/or State share	

Source: Property Attachments to the Department contracts with the CBCs.

Absent the maintenance of complete property records, the CBCs will be unable to safeguard, account for, and accurately and completely report tangible personal property in the manner required by contract and governing Federal requirements.

Recommendation: We recommend that the Department ensure that all CBC contract clauses and documents identifying property record requirements for CBCs are consistent and in compliance with Federal regulations. We also recommend that the CBCs ensure that their property records make provision for all required information and that the required information is accurately and completely recorded.

Finding No. 5:   Contract Monitoring

Pursuant to Section 402.7305, Florida Statutes, the Department has established contract monitoring policies and procedures to measure contractor performance and compliance with contractual provisions. Those policies and procedures require on-site and desk reviews. On-site monitoring includes programmatic, fiscal, and administrative components, while desk reviews include analyses of provider performance and contract compliance. Monitoring activities include:

> ➤ Contract managers are to review contract deliverables, verify and approve periodic invoices for services, maintain schedules of contract payments and periodically reconcile these payments to the State's official accounting records, and periodically visit the provider's physical location, among other things.

> ➤ The Contract Oversight Unit is to perform an annual risk assessment of contracts, complete an annual contract monitoring schedule, prepare a contract monitoring plan, perform desk reviews and on-site monitoring, and provide a written report of the results of on-site monitoring.

> ➤ A fiscal monitor engaged by the Department is to provide financial oversight and ensure the fiscal integrity of the CBCs' operations.

Our audit disclosed that the monitoring procedures established by the Department could be enhanced to provide greater assurance over the accountability for property held by the CBCs for the Department, as indicated by the following:

> ➤ The Department's contract managers reviewed the annual inventories, a contract deliverable, submitted by the CBCs. For Metro Orlando and Hillsborough Kids, we noted that the contract manager selected from the CBC's inventory a sample of property items and verified through physical observation the information in the inventory, while for Family Support Services, the Contract Oversight Unit performed this function. (The Contract Oversight Unit is tasked with performing inventory monitoring; however, if the contract manager performs testing of the inventory, the Contract Oversight Unit generally will not duplicate this monitoring task.) The testing of the inventories did not include the selection of items physically observed to verify their inclusion in the listed inventory items. Absent a comparison of property items physically observed to the related inventory record, the Department's monitoring approach did not provide assurance that all property items that should be recorded in the inventory were included.

> ➤ The Contract Oversight Unit uses, in part, an *Administrative Contract Monitoring Tool* (Tool) which includes steps to determine whether the CBCs complied with the administrative requirements of the contract regarding tangible personal property. The Tool is comprised of 21 different sections, including Section 11, *Fixed Asset: Applicable for contracts with non-expendable property clause.* The Tool

includes procedures to determine 1) whether an annual physical count is performed, 2) that the property records are maintained in accordance with the contract, 3) whether the property is being used in compliance with Federal regulations if purchased with Federal moneys, 4) that the property is observed to determine that it is being used as authorized by the contract, and 5) that it is adequately protected from theft, deterioration, and damage. The Tool does not include steps to analyze the changes between prior year ending and current year ending property record balances, test a sample of property items physically observed at CBC and CMO locations to determine that items are recorded in the property records, or review CBC internal controls over CBC property and property transferred to CMOs.

➢ The fiscal monitor performs services to determine that the CBCs' cash disbursements are reasonable, necessary, and allowable. However, if a cash disbursement is for property that should be recorded in the property records, the fiscal monitor is not required to determine whether the property was added to the property records.

The enhancement of monitoring efforts would facilitate more timely notice of internal control deficiencies relating to property, incomplete property inventories and records, and the existence of missing or misappropriated property.

Recommendation: We recommend that the Department enhance contract monitoring procedures to provide greater accountability over property. Such contract management procedures should include, but not be limited to:

➢ **Evaluating the effectiveness of the internal controls relating to tangible personal property.**

➢ **Analyzing the changes between prior year and current year ending property record balances.**

➢ **Observing and sampling property at CBCs and CMOs.**

➢ **Requiring the fiscal monitor to trace to the property records any property purchased, as identified in tests of CBC cash disbursements.**

Finding No. 6:   Segregation of Duties

Our audit disclosed that the CBCs had assigned incompatible duties related to the acquisition and accountability of IT equipment to certain employees as discussed below:

➢ At Metro Orlando, the Director of IT and Support Services had the duties of ordering IT equipment, receiving IT equipment, providing the Business Manager with the request for the number of property tags needed, and affixing the property tags to the IT equipment. The Business Manager added the IT equipment to the property records and provided for the physical inventory of such equipment.

➢ At Family Support Services, the Director of Data Management had the duties of ordering IT equipment, receiving IT equipment, and assigning property numbers to the items purchased.   The   Director   of   Data Management also conducted the annual physical inventory.

➢ At Hillsborough Kids, the Vice President of IT and the Information Systems Manager had the duties of ordering IT equipment, receiving IT equipment, entering IT equipment into the property records, and performing the physical inventory of such equipment.   Also, Hillsborough Kids does not assign property numbers to the equipment purchased, but rather tracks it by serial number.

➢ Common to all three locations was the lack of compensating controls to provide assurances that all IT equipment ordered and received was properly accounted for and included in the property records.

Absent an appropriate segregation of duties related to purchase authorization, asset custody, and record keeping, there is an increased risk that errors can occur and escape timely detection.

Recommendation: We recommend that the CBCs segregate the duties such that no one employee has the ability to order, receive, tag, and inventory   equipment.   Additionally,   we recommend that Hillsborough Kids consider the use of numbered property tags to aid in the identification, location, and safeguard of the equipment.

Property and Casualty Insurance

Finding No. 7:   Property Insurance Coverage

Our audit included a review of CBC risk management policies and procedures to determine whether they provided adequate instruction on how to analyze the types and amounts of insurance coverage required to mitigate the risk of loss for furniture and equipment. We also reviewed CBC policies and procedures to determine whether they provided for the oversight of insurance coverage for the CMOs holding furniture and equipment as subcontractors of the CBCs.

Our review of these CBC policies and procedures disclosed that they did not include adequate information in describing how CBC staff should analyze the amounts of insurance coverage required to insure furniture and equipment. The CBCs also did not provide adequate guidelines for reviewing CMO insurance coverage to ensure that the CMOs were mitigating the risk of loss for furniture and equipment that was to revert to the State of Florida upon the termination of contracts.

Improved policies and procedures may have prevented the following instances in which inadequate amounts of insurance had been provided:

> Family Support Services maintained property replacement value coverage in the amount of $117,700 for furniture and equipment with acquisition costs[6] in excess of $400,000, not including furniture and equipment valued at under $1,000 and not otherwise included in the property records.

> Hillsborough Kids maintained property replacement value coverage in the amount of $74,000 for non-IT property and furniture and $367,000 for IT property (with planned changes to $135,000 and $683,000, respectively, as of October 12, 2007). Hillsborough Kids' property records included tangible personal property with acquisition costs in excess of $1 million. Not included in this amount were 476 items without an acquisition cost shown in the property records (addressed in Finding No. 4) and other

furniture and equipment not otherwise included in the property records. Hillsborough Kids indicated in a memorandum dated November 16, 2007, that additional property coverage had been provided at each building that is occupied by its CMOs. However, the information provided did not demonstrate that CMO insurance coverage was sufficient to cover Hillsborough Kids property and other property owned by CMOs.

Recommendation: We recommend that the CBCs amend their risk management policies and procedures to ensure that they provide for an analysis of the adequacy of insurance provided for furniture and equipment. We also recommend that the risk management policies and procedures be amended to provide for review of the adequacy of CMO insurance coverages. Furthermore, we recommend that Family Support Services and Hillsborough Kids update their insurance coverages as necessary to ensure adequate coverage for contract-related property.

Information Technology Security

As indicated in the **BACKGROUND** section of this report, the Department maintained and operated FSFN as its official system of record for all child welfare casework. The initial phase of FSFN was implemented in July 2007, replacing the Department's previous child welfare system, HomeSafenet.

The CMOs under contract with Hillsborough Kids used the IT services of Hillsborough Kids and connected to FSFN through Hillsborough Kids. In contrast, the CMOs that contracted with Metro Orlando and Family Support Services owned their IT equipment, provided their own IT services, and connected directly to FSFN.

CBC IT functions were relevant to the FSFN security and control environment because CBCs could use their internal networks in conjunction with the VPN to transport FSFN data. In addition, the Department planned to provide the capability for CBCs to download FSFN data to their servers.

As indicated in Finding Nos. 8 through 12, our audit disclosed several opportunities for the enhancement of IT controls.

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[6] Acquisition cost was used as an estimate of replacement value.

Finding No. 8:   Department Monitoring of CBC IT Activities

An important element of risk management is the establishment of adequate policies and controls that are intended to reduce risk. Management involvement is essential in promoting compliance with an entity's policies. Periodic monitoring of activities by management is an important means of identifying areas of noncompliance with established policies and ensuring the ongoing appropriateness of policies and controls.

The Department's monitoring of CBC IT activities needed improvement. Specifically:

> The Department had not established procedures for monitoring the IT functions of the CBCs that were used in support of FSFN. Children and Families Operating Procedure (CFOP) No. 75-8, Policies and Procedures of Contract Oversight, addressed oversight of third-party services provided by contractors of the Department. However, the procedures did not include the IT functions of the CBCs. The lack of written procedures to guide the Department's monitoring of CBC IT functions increases the risk that adequate monitoring of the various CBCs will not occur and the Department's ability to hold the CBCs accountable for the confidentiality, integrity, and availability of FSFN data will be limited.

> The Department's reporting of FSFN security activities to regional security officers and the CBCs needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising FSFN security. However, appropriate Department staff has been notified of the specific issues.

Recommendation: The Department should establish procedures for monitoring the IT functions of the CBCs that affect Department IT systems such as FSFN. The Department should also communicate with appropriate regional and CBC security officers regarding security reporting needs and enhance the reporting and monitoring of FSFN security activities.

Finding No. 9:   Security Controls

Security controls are intended to protect the integrity, confidentiality, and availability of information systems data and resources. During our audit, we identified additional aspects of Department, Hillsborough Kids, and Metro Orlando security controls that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Department and CBC security. However, appropriate Department and CBC personnel have been notified of the security control issues.

Recommendation: The Department, Hillsborough Kids, and Metro Orlando should implement appropriate action to strengthen security controls to enhance the safeguarding of IT resources.

Finding No. 10: CBC Disaster Recovery Planning

Disaster recovery planning is an element of IT controls established to restore critical applications that includes arrangements for alternative processing facilities in the event of a processing disruption. The success and effectiveness of a disaster recovery plan requires, among other things, detailed development of proper backup and recovery procedures, including identification of facilities, software, and hardware compatible with an entity's needs. In addition, periodic testing of disaster recovery plans is essential to determine whether the plans will function as intended in an emergency situation.

We noted the following aspects of CBC disaster recovery planning that needed improvement:

> Metro Orlando's Emergency Preparedness Plan lacked certain provisions for the recovery of its IT resources, such as the computer and telecommunications hardware that will be needed, the roles and responsibilities of those who will be involved in recovery activities, and procedures for restoring critical applications. Also, Metro Orlando had not established a written agreement for an alternate processing site.

➢ In its disaster recovery plan, Hillsborough Kids documented various disaster recovery scenarios, based on the nature of the disaster, for its IT resources and services. However, in the event of a complete disaster, a specific emergency location for recovery procedures had not been determined. Also, the CBC data and system backup files were stored in the server room, rather than an off-site location. In addition, Hillsborough Kids had not tested its disaster recovery plan.

➢ Family Support Services maintained an Emergency Preparedness Plan for its personnel and client safety but did not have a plan for the recovery of its IT resources or an agreement for an alternate processing site. Also, the off-site location for Family Support Services backup files was in close proximity to the IT operations site. As of September 28, 2007, Family Support Services was in the process of investigating options for an alternate processing site and other off-site facilities for the location of its backup files.

The lack of an adequate disaster recovery plan that includes steps for the recovery of IT resources, the establishment of an alternate facility, and an adequate off-site location for backup files increases the risk that the above-mentioned CBCs may be unable to continue critical operations during a disaster. Also, without periodic testing of the disaster recovery plan, CBC assurance is limited that critical operations can be resumed in a timely and orderly fashion.

Recommendation: **To ensure the continuity of critical business operations, the CBCs should ensure that disaster recovery plans include proper provisions for backup and recovery of IT resources, including emergency locations for recovery procedures. In addition, the CBCs should periodically test the disaster recovery plans for effectiveness.**

Finding No. 11:   CBC Environmental Controls

One of the major causes of computer downtime is the failure to maintain proper controls over temperature, humidity, air movement, cleanliness, and power. Environmental controls prevent or mitigate potential damage to facilities and interruptions in service. Environmental controls such as fire suppression systems, water detectors, redundancy in air cooling systems, and backup power supplies can diminish the

losses from interruptions by detecting potential problems early. In addition, proper physical security controls help to ensure protection of equipment.

We noted conditions within the CBC server rooms and buildings that needed improvement to strengthen the environmental controls and physical security over IT equipment:

➢ The Metro Orlando, Family Support Services, and Hillsborough Kids server rooms each lacked raised flooring with water drainage and did not have water detection devices.

➢ The Metro Orlando and Family Support Services server rooms were not equipped with humidity control devices.

➢ The Family Support Services server room had a false ceiling that could allow entry and diminish the effectiveness of a locked door.

➢ The building in which the Family Support Services server room resided did not have a fire suppression system, although there were hand-held fire extinguishers in the building.

Without adequate controls in place to safeguard computer equipment from environmental hazards or unauthorized physical access, the risk is increased that equipment may be damaged, destroyed, or stolen.

Recommendation: **CBC   IT   management should ensure proper environmental and physical controls are put in place and maintained for protection of IT equipment.**

Finding No. 12:   Family Support Services - IT Policies and Procedures

Each function within an entity needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Policies establish the entity's direction, while procedures indicate how policies are to be implemented and followed. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. Management should ensure that entity policies are clearly communicated, understood, and reevaluated at least annually to assess their adequacy and appropriateness and then amended as necessary.

We noted that certain IT policies and procedures at Family Support Services were not current and lacked official adoption by the CBC. Family Support Services information technology policies and procedures for data security, data backup and disaster recovery, and implementation of Department management information policies and procedures, among others, did not reflect the effective date or the revision date of the last changes made and did not contain evidence of management approval, even though approval signature and date fields were provided. In addition, we noted an authoritative reference within the data security policies and procedures that referred to a memorandum from the Executive Office of the Governor that had not been authoritative since August 2004. Also, the policies and procedures had not been updated to reflect current industry standards for information security.

In the absence of approved, up-to-date IT policies and procedures, there is an increased risk that controls necessary to ensure the confidentiality, integrity, and availability of FSFN data will not be consistently applied and will not be carried out as management intended.

Recommendation: Family Support Services should ensure that IT policies and procedures have been officially adopted by the CBC and are reviewed periodically and updated as needed to ensure that management's requirements are met.

OBJECTIVES, SCOPE, AND METHODOLOGY

This operational audit focused primarily on records related to the initial transfer of property and accountability provided for tangible personal property provided under Department contracts with selected CBCs and the effectiveness of selected IT controls. Our specific objectives were to:

➤ Determine that property transferred from the Department to the CBCs was inventoried and agreed upon and the inventories were signed by both parties.

➤ Determine whether the Department had effective contract monitoring procedures that ensured that the CBCs comply with contract terms applicable to tangible personal property.

➤ Evaluate the effectiveness of selected IT security and other general controls.

➤ Determine the adequacy of the Department's procedures to follow-up on property findings of contracted fiscal monitors or of the Department's Contract Oversight Unit.

➤ Determine the adequacy of the fiscal monitor's and Contract Oversight Unit's responsibilities related to CBC tangible personal property.

➤ Evaluate the CBC's compliance with Department contracts.

➤ Evaluate the CBC's controls over the annual reporting of tangible personal property to the Department.

➤ Evaluate the CBC's controls over the inventory of tangible personal property.

➤ Determine whether the CBC safeguarded assets through the use of a risk management program.

➤ Evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines.

➤ Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

In conducting our audit, we:

➤ Interviewed selected Department and CBC personnel.

➤ Obtained an understanding of internal controls and observed, documented, and tested key processes and procedures related to areas within the scope of the audit.

➤ Evaluated selected IT security controls, backup and recovery provisions, management of proprietary software licenses, and environmental safeguards of the selected CBCs related to FSFN.

➤ Evaluated Department policies and procedures for monitoring the CBCs' IT security.

➤ Analyzed the property records at three CBCs to evaluate whether the property records contained all data required by Federal law, State law, and Department contracts.

- Evaluated whether the initial inventories from contract execution with three CBCs could be verified.

- Evaluated the annual inventories at three CBCs to determine whether the inventories were performed, missing items were addressed in accordance with policy and procedure, and the inventories were signed by the CBC and the Department contract manager.

- At each of the three CBCs, observed at least 10 property items selected from the property records to determine that the property items existed, were in the proper location, and were in working order.

- At each of the three CBCs, selected 10 items of property to determine that they were properly recorded in the property records.

- At each of the three CBCs, analyzed the effectiveness of CBC contract monitoring of CMOs as it related to tangible personal property.

- Examined 334 property deletions to determine whether they were properly authorized and documented in the property records.

- Examined 102 property transactions for the period July 2005 through June 2007 to determine whether they met the criteria for tangible personal property and whether they were properly recorded in the property records.

- Examined insurance documents at three CBCs to determine whether adequate liability, property, and casualty coverage was in place.

Our audit of tangible personal property accountability primarily included examinations of various transactions during the period July 2006 through June 2007. Our audit of IT controls included examinations of various documents, observations, and other tests applicable to the period August 2007 through November 2007. Our audit of IT security at the selected CBCs did not include the performance of vulnerability testing of the CBCs' networks or systems. Additionally, we did not review the IT security of local case management organizations that connected to FSFN.

AUTHORITY

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.

David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSES

In letters dated February 19, 2008, and February 22, 2008, the Department and CBCs provided responses to our preliminary and tentative audit findings. The letters are included at the end of this report as Appendix A.

APPENDIX A

MANAGEMENT RESPONSES

State of Florida
Department of Children and Families

Florida Department of
Children & Families

Charlie Crist
Governor

Robert A. Butterworth
Secretary

February 22, 2008

Mr. David Martin
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Thank you for your January 23, 2008 letter providing the Department of Children and Family Services a draft copy of your report, *Community-Based Care Lead Agencies Tangible Personal Property and Information Technology Security, for the period July 2006 through June 2007 and August 2007 through November 2007.* Our written explanation provides responses to the report's twelve (12) recommendations.

The Department will conduct the following actions:

1. Ensure consistency in all Community-Based Care (CBC) contracts providing guidance in what information they are required keep in order to maintain sufficient property records. (Recommendation 4)

2. Update Cost Allocation Plan template to ensure that each CBC has an acquisition code to identify purchases that should be recorded in physical inventory. (Recommendation 2)

3. As we are developing fiscal monitoring procedures, ensure that remaining recommendations are addressed. Specifically:

   a. For Property, develop procedures for contract managers or fiscal monitors or both to ensure safeguarding of assets, separation of duties, appropriate insurance coverage and maintenance of adequate property disposition records. (Recommendations 3, 5, 6, 7)

1317 Winewood Boulevard, Tallahassee, Florida 32399-0700

Mission: Protect the Vulnerable, Promote Strong and Economically Self-Sufficient Families, and
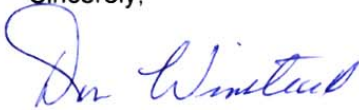Advance Personal and Family Recovery and Resiliency

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

Mr. David Martin
February 22, 2008
Page 2

    b. For Information Technology (IT), Department IT staff performed a review of the CBC, ChildNet, last year that encompassed many of the areas of concern. Other CBCs have requested a similar review. We will incorporate into our new fiscal monitor process. (Recommendations 8 through 12)

4. As to Recommendation 1, it is not cost effective to do this for every CBC, especially where we have had changes in lead agencies and where items no longer have value due to their age. We will assess risk, workload, cost/benefit and move forward appropriately.

I appreciate the time and effort of the Auditor General's staff in completing this review. If you have any questions, please contact Ms. Melissa P. Jaacks, Assistant Secretary for Administration, at (850) 488-6062.

Sincerely,

Robert A. Butterworth
Secretary

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

February 19, 2008

Mr. David W. Martin
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Following is Family Service of Metro Orlando's (FSMO's) response to the Preliminary and Tentative Audit Findings report. These responses contain the requested written statement and explanation concerning each applicable finding including FSMO's actual or proposed corrective actions.

Finding No. 1: Initial Property Transfers

FSMO acknowledges that there was not a beginning inventory list that was agreed upon by both FSMO and the Department, although FSMO has submitted physical inventories yearly to the Department. Both parties are in the process of a re-validation of the transfers of property items. During this process, all transfers of property are being reconciled, differences investigated and resolved. As soon as this re-validation is complete, a master inventory list will be signed by both FSMO and the Department and will serve as the initial inventory list for both agencies. This is expected to be complete by March 15, 2008.

Finding No. 2: Additions of Property Items to the Property Records

FSMO has established appropriate account codes to specifically capture all purchases of fixed assets. The items recorded in these accounts will be included in property records and will be periodically reconciled to ensure complete and accurate property records. This process is outlined in our finance policies and procedures. The one item, a server, identified during the audit as not being properly recorded, has been tagged and recorded to FSMO's property records.

Finding No. 3: Deletion of Property Items from the Property Records

FSMO has been in existence for less than four years. Therefore, disposals of property to this point have been minimal. FSMO maintains a log that records all disposal requests and approvals. This log also shows the reason for disposal of the property and identification of any

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

Mr. David W. Martin　　　　　　　　　　　　　　　　　　　　　　　**Page 2 of 3**
Auditor General
February 19, 2008

proceeds received. FSMO now has a system that retains historical items that have been removed from inventory due to transfer, disposal, donation, surplus or theft.

Finding No. 4: Property Records

During the re-validation process of all property, all missing information as noted in the AG report has been added to the property records. Note that the items missing the acquisition cost in the report were primarily items transferred to FSMO from DCF at the inception of the contract and were not purchased by FSMO.

Finding No. 6: Segregation of Duties

FSMO has implemented proper separation of duties for the purchase of a fixed asset and the receipt of a fixed asset. The Director of IS or appropriate staff orders IT equipment and then the business manager or her designee receives and tags property accordingly before releasing to the Director of IS or appropriate staff. This provides assurance that all IT equipment ordered and received is properly accounted for and included in the property records. One person does not have the ability to order, receive, and tag any fixed assets. This process is outlined in our finance policies and procedures.

Finding No. 7: Property Insurance Coverage

FSMO maintains adequate property replacement insurance coverage for furniture and equipment and demonstrated this during the Auditor General (AG) audit. A recent analysis was conducted confirming this and risk management policies and procedures have been amended appropriately to provide for an analysis of the adequacy of insurance provided for furniture and equipment. FSMO risk management polices and procedures have also been amended to provide for review of the adequacy of CMO insurance coverages.

Finding No. 9: Security Controls

FSMO has addressed all issues requested by the AG. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising the Department and CBC security.

Finding No. 10: CBC Disaster Recovery Plan

FSMO provided the A.G. with our Emergency Preparedness Plan for I.T., found in the I.S. Handbook of Protocols and Practices. The plan has contingencies for the backup and recovery of all mission critical elements of FSMO's system. The mission critical systems can be reactivated within 72 hours of most disasters. FSMO's mission critical data is backed up to an offsite

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APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

Mr. David W. Martin   **Page 3 of 3**
Auditor General
February 19, 2008

storage center that can be accessed with a 256 bit encrypted code. FSMO is currently assessing strengthening the Disaster Preparedness Plan by:

1) Enhancing the formal "Step by Step" process of recovery,
2) Assessing the need to have a offsite recovery facility,
3) Providing further disaster recovery planning for a catastrophic disaster.

FSMO anticipates finalizing these systems within 120 days.

The program data used by FSMO on a daily basis is managed and secured by the Department of Children and Families at offsite facilities. FSMO has no authority or ability to maintain a recovery system for those applications. However, FSMO completes nightly downloads of the two primary state systems for child welfare (FSFN and ICWSIS) so that loss of client data collected within those systems is minimal.

Finding No. 11: CBC Environment Controls

FSMO is on the second floor of a three story building. All technology in the FSMO server room is at least one foot off the floor. After consulting with AOK Networking, our network consultants, it was determined that a raised floor would not provide additional security. Regarding the other primary threats to the physical environment of FSMO's server room, FSMO is assessing two devices that will provide humidity, water, smoke, security, temperature, and vibration protection. Estimated purchase and install is by March 15, 2008.

Sincerely,

Gregory J. Kurth, MA
Chief Executive Officer

cc: Christine Barbery, Department of Children and Families Contract Manager

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Orlando, Florida 32804   www.fsmetroorlando.org

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

February 22, 2008

ATTN: David Martin
Office of the Auditor General, State Of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

RE: RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Dear Mr. Martin:

I would like to take this opportunity to thank you and your staff for your guidance during this first comprehensive audit between the AG's office and FSS. As outlined in our opening entrance statement, our BOD and our leadership staff operate under a transparent system of care. We take these findings seriously and place an "urgency" on addressing these findings and improving on each of the categories.

We offer the following responses on the identified findings and recommendations of the Auditor General's Office:

Finding #2: During the expansion of contract services and our relocation in 2005, our fiscal office placed these items in the incorrect category. In reviewing these items in 2007, we discovered that these items should have been classified as fixed assets. We placed them on our fixed asset schedule complete with entries for accumulated depreciation and will continue to depreciate these items. The lead on this issue has been identified in the fiscal department and will to continue to monitor.

Finding #3: The start-up contract in 2003 that occurred at the onset of the privatization phase was an improvised process between the CBC and DCF. During this period, key documentation on the part of FSS and DCF may not have been an acceptable accounting practice. The original model had eight subcontractors who received the bulk of the equipment; they too may have failed to use acceptable accounting practices.

COMMUNITY-BASED CARE LEAD AGENCY FOR CHILD PROTECTIVE SERVICES

FSS was cited specifically for not recording the receipt or disposal of 233 items valued at $299,600 originally transferred from DCF to FSS upon our agency's start-up and deleting 69 items valued at $48,405 from our property records with no supporting documentation or subsequent explanation. The staff employed during this time are no longer employed with FSS.

The former FSS' Data Manager failed to use proper documentation. FSS has new operating procedures that are in effect which require the use of specific forms for transfer and disposition of inventory. Use of the FSS form is now a standard part of our property disposition procedures subsequent to June 2007.

FSS acknowledges that we cannot account for the disposition of property items inherited from DCF at start-up. This was not a requirement of the original CBC contract and the items were surplus, or of no tangible value.

Finding #4: FSS was cited for failure to include an acquisition cost for 32 items, and for failure to include a field in the property records to specify funding source. FSS will identify and list an acquisition value for all items on our property inventory. In addition, we have scheduled an upcoming **comprehensive** inventory with a third party which will assign a property value in lieu of an original cost. DCF was advised that all items have been obtained by the single source of DCF contract funds. We will add a field to document the funding source going forward going forward, we will document the funding source on all new grant programs at FSS involving property acquisition.

Finding #6: The FSS IT department now has three professional individuals whose jobs will segregate the functions of ordering receiving, and assigning property numbers.

Finding #7: FSS acknowledges that our property replacement coverage did not match the replacement value. We have increased our levels of commercial property coverage to meet the recommendations.

Finding #10: FSS had an approved and appropriate emergency disaster plan for child welfare services however upon further analysis we recognized that the IT portion of the disaster plan needed enhancement. We solicited competitive proposals for off-site storage of backup media and disaster recovery of IT resources and we will have a revised disaster plan that meets our requirements in the near future.

Finding #11: A recommendation was made that we augment our environmental controls protecting IT resources. FSS has performed a cost-benefit analysis of installing environmental controls suggested by the AG review team and will continue to research this item.

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

Finding #12: FSS has recently hired a new IT Director. He has been tasked with immediately implementing corrective action. New and updated policies and procedures covering data security, backup, and disaster recovery, have been drafted and will be presented to our Board for their review and ratification.

Sincerely,

James Adams, CEO
Family Support Services of North Florida

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

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February 22, 2008

David W. Martin
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin,

Please find enclosed Hillsborough Kids, Inc.'s response to preliminary and tentative audit findings.

Should you have any questions, please feel free to call.

Sincerely,

Jeff Rainey, CEO

Encl.

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

Finding No. 1: Initial Property Transfers

Response: HKI variances were caused by factors such as; transfer of equipment was under fair market value of $1,000 as identified for certain items, DCF property may have been surplused prior to being transferred to HKI, but noted incorrectly in FLAIR as HKI has no record of the transfer for certain property.

Finding No. 2: Additions of Property Items to the Property Records

Response: The HKI IT Department is currently working with the HKI Finance Department in the implementation of accounting software that merges the Property Records with accounting records.

Specific general ledger codes were created in July 2007 when HKI purchased new accounting software to be assigned to specific equipment inventory. This will enable HKI to reconcile current asset inventory to any additions or deletions during the year once the IT inventory and accounting asset module are merged.

Finding No. 3: Deletion of Property Items from the Property Records

Response: The HKI IT department has revised its policy so that records be kept for all disposed property, so that reason for the disposal is apparent, as well as management approval for the disposal and proceeds received. Incident reporting of lost or stolen equipment will require a mandatory police report.

Finding No. 4: Property Records

Response: The acquisition cost of property was recorded in the accounting depreciation worksheet.

During the monitoring HKI brought in the Value Added Reseller for Microsoft systems, who assisted with the transition to Great Plains accounting software in July of 2007. The purpose was to hear from the monitors the best practices that they had reviewed at other entities and analyze the feasibility of having a single point of access for all inventory tracking and control. HKI will be combining the IT property inventory log with the accounting property capitalization schedule.

The Great Plains Fixed Asset Module has the capability of tracking all asset purchases. Purchases are recorded in Accounts Payable to be paid and the Fixed Asset module is directly linked to the AP module by Acquisition Date, asset description, and the Vendor. In the Fixed Asset Module the asset can be classified as a Capital Asset or a property asset. Additional information can be included i.e. General Location, a Physical Location, a Custodian, Manufacturer, Serial Number, Warranty Date, Model number, Last verified Date of the asset, and Last Maintenance date, also, 15 additional user defined fields can be utilized to further track the asset or for informational purposes. Insurance or Leasing information is built in that can be added to the Asset information as well.

APPENDIX A

MANAGEMENT RESPONSES
(CONTINUED)

Finding No. 6: Segregation of Duties

Response: HKI has segregated duties so that different departments have the different responsibilities of ordering, receiving, tagging and inventorying equipment.

Security controls will be put in place to limit access to the database to restrict who can add, modify, transfer, report and remove the assets.

Finding No. 7: Property Insurance Coverage

Response: HKI will be amending its risk management policies and procedures to ensure an analysis of the adequacy of all property insurance for HKI itself and CMOs. Such an analysis will be performed at least yearly to ensure adequate coverage for contract-related property.

In consultation with our property insurance provider, HKI assesses the inventory value in the property record and the fixed asset inventory based on acquisition cost and adjusted for inflation for replacement value purposes. HKI has $620,596 of surplus technology equipment which is no longer being utilized. HKI equipment has additional property insurance coverage at each building that is incurred by its subcontractors. HKI also increased its property coverage by an additional $500,000 in February, 2008 to ensure adequate coverage.

Finding No. 9: Security Controls

Response: HKI acknowledges the recommendation, and will be implementing stronger security controls to protect IT resources.

Finding No. 10: CBC Disaster Recovery Planning

Response: HKI is in the process of determining an appropriate emergency location for recovery procedures, as well as an off-site location for its CBC data and a back-up system.

Finding No. 11: CBC Environmental Controls

Response: HKI is currently constructing a new server room in its new corporate headquarters with proper controls over humidity, temperature, air movement, power and cleanliness. Water detection devices are to be installed, and other environmental controls such as back-up power supplies will be implemented. Physical security controls will be installed as well. These measures will decrease the risk that equipment will be stolen, damaged or destroyed.