



# AUDITOR GENERAL

DAVID W. MARTIN, CPA



## DEPARTMENT OF ENVIRONMENTAL PROTECTION MANAGEMENT OF STATE FINANCIAL ASSISTANCE Operational Audit

### SUMMARY

This operational audit of the Department of Environmental Protection (Department) focused on the Department's management of State financial assistance. The audit included the period July 2005 through February 2007 and selected actions taken through November 2007. We found that improvements in the Department's grants management processes were needed.

**Finding No. 1:** Compliance Supplements had not been established for programs representing a significant percentage of State financial assistance disbursed during the 2005-06 and 2006-07 fiscal years.

**Finding No. 2:** The Department paid to recipients \$138,734 for services provided and personnel expenses incurred prior to the time allowed for in the applicable grant agreements.

**Finding No. 3:** A Department report used as the basis for reminding non-State entities of their responsibilities to provide audit reports did not include 8 entities from which audit reports were due. Audit reports were not submitted to the Department by 11 recipients, including the 8 which did not receive reminder letters.

### BACKGROUND

As shown by Appendix A, the Department of Environmental Protection (Department) disbursed over \$500 million in State financial assistance (SFA) to non-State entities (recipients) during each of the 2005-06 and 2006-07 fiscal years. Such moneys are to be administered in accordance with the Florida Single Audit Act (FSAA). Section 215.97, Florida Statutes, establishes as purposes of the FSAA the following:

- Establish uniform State audit requirements for State financial assistance provided by State agencies to non-State entities to carry out State Projects.
- Promote sound financial management, including effective internal controls, with respect to State financial assistance administered by non-State entities.
- Promote audit economy and efficiency by relying to the extent possible on already required audits of Federal financial assistance provided to non-State entities.
- Provide for identification of State financial assistance transactions in the State's accounting records and recipient organization records.
- Promote improved coordination and cooperation within and between affected State agencies providing State financial assistance and non-State entities receiving State assistance.
- Ensure, to the maximum extent possible, that State agencies monitor, use, and follow up on audits of State financial assistance provided to non-State entities.

The FSAA identifies the responsibilities of various entities involved in the FSAA process, including the Department of Financial Services (DFS) and the State agencies that award SFA to recipients.

Under the FSAA, the DFS has the final authority<sup>1</sup> for approving the State's Catalog of State Financial

<sup>1</sup> Effective July 1, 2005, pursuant to Section 11, Chapter 2005-152, Laws of Florida. Prior to that time, the authority rested with the Executive Office of the Governor.

Assistance (CSFA) and the State Projects Compliance Supplement (SPCS), although the primary responsibility for the content of these documents rests with the awarding agency. The CSFA is a catalog of available SFA that provides information for each project, including restrictions and application requirements. During the 2005-06 and 2006-07 fiscal years, there were 31 and 32 Department projects, respectively, included in the CSFA. Whether there is funding available for all projects in the CSFA is dependent on Legislative appropriations.

The purpose of the SPCS is to communicate to recipient auditors those compliance features that awarding agencies have identified as the most significant SFA requirements for each State Project, and may also include suggested audit procedures. The information included in the SPCS for a specific State project will be referred to in this report as a Compliance Supplement.

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**FINDINGS AND RECOMMENDATIONS**

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**Finding No. 1: Compliance Supplements**

For the two-year period ended June 30, 2007, the Department disbursed over \$1 billion in SFA relating to 28 of the 32 State Projects for which CSFA numbers had been established. As shown by Appendix A, Compliance Supplements had been prepared for only 3 of these 28 projects. SFA disbursed for these 3 projects represented only 32 percent (\$352.3 million) of the total SFA disbursed for the 28 State Projects.

While there may exist reasonable explanations for not developing a Compliance Supplement for a particular State Project, the Department did not maintain records explaining why Compliance Supplements had not been prepared. Absent the promulgation of Compliance Supplements where needed, the Department has reduced assurance that key compliance features will be addressed by recipient auditors.

We also noted that the Department had not established a CSFA number or Compliance

Supplement for funds disbursed (\$7.3 million during the 2006-07 fiscal year) pursuant to Section 320.03(6), Florida Statutes, to eight local governments for local government air pollution control programs. These disbursed amounts were inappropriately identified in the Department’s accounting records as Aid to Counties instead of SFA.

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**Recommendation: Department management should document its determination of whether Compliance Supplements are necessary for SFA projects, and where needed, prepare Compliance Supplements. Additionally, Department management should ensure that CSFA numbers are established for all SFA projects and that all SFA project transactions are properly identified in the Department’s accounting records.**

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**Finding No. 2: Grant Disbursements**

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Program area grant managers are responsible for monitoring recipient compliance with SFA agreements. These responsibilities include reviewing and approving invoices for payment to ensure that there is appropriate supporting documentation consistent with agreement terms. Once reviewed and approved by the appropriate grant manager, the invoices are to be forwarded to the Bureau of Finance and Accounting for a final review before being processed for payment.

Our test of 40 SFA disbursements totaling \$149,306,840, disclosed 3 instances, totaling \$138,734, in which recipients were paid for services provided and personnel expenses incurred prior to the dates allowed in the applicable grant agreements. These instances related to three different grant managers and State Projects. In these three instances, Department internal controls were ineffectively applied, as the payments were made, although the supporting documents reviewed by grant managers and Bureau of Finance and Accounting staff indicated that the dates of service made the charges unallowable.

In response to our request, Department staff indicated that there would be on-going training provided to grant managers and Bureau of Finance and Accounting staff to prevent similar instances from

occurring in the future. We noted that Department records indicated that two of the grant managers had last received grants management training in December 2001.

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**Recommendation: Department management should ensure that grant managers and other applicable staff receive periodic grants management training.**

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**Finding No. 3: SFA Recipients' Audit Reports**

The Grants Development and Review Manager was responsible for monitoring SFA recipients' compliance regarding obligations to provide the Department with copies of audit reports when SFA expenditures totaled \$500,000 or more. Audit reports from SFA recipients provide the Department with additional assurance that SFA has been properly administered.

We noted that letters entitled Certification of Applicability to Single Audit Act Reporting (reminder letter) were sent to recipients identified on a report generated from the Department's accounting records. The report was to include the names of all recipients provided \$500,000 or more in Department SFA during the 2004-05 fiscal year. The report listed a total of 47 recipients.

Based on our analysis of the Department's 2004-05 fiscal year accounting records, 55 recipients were provided \$500,000 or more in SFA and should have, under the Department's procedures, been sent reminder letters. Department staff were unable to explain why the report included the names of only 47 recipients.

We determined that audit reports were not received from 11 of the 55 recipients which potentially should have submitted audit reports to the Department (the audit report requirement is based on recipient expenditures, not SFA received, as there could be timing differences between the two). During the 2004-05 fiscal year, the SFA disbursed by the Department to these 11 recipients totaled \$13.3 million.

With respect to these 11 recipients, the Department

had submitted letters to 3 reminding them of their FSAA responsibilities to provide for audits. However, the other eight recipients were among those which were not sent reminder letters.

Absent an accurate report for identifying recipients with \$500,000 or more in SFA, the Department cannot consistently identify those recipients which are likely subject to FSAA audit requirements. Absent the Department's timely receipt and review of the audit reports, matters requiring corrective action may escape the Department's attention.

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**Recommendation: Department management should ensure that the report used to identify SFA recipients includes all SFA.**

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

This operational audit for the period July 2005 through February 2007, and selected actions taken through November 2007, focused on the Department's management of State financial assistance. In addition, we performed procedures to determine whether adequate corrective actions were taken to correct Department deficiencies relating to SFA matters noted in audit report No. 2005-097. Our objectives included:

- Evaluating the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- Evaluating management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.

In conducting our audit, we interviewed Department personnel, reviewed policies, procedures and processes, examined transactions, performed analyses

of Department records, and performed various other procedures as deemed necessary in the circumstances

**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 RESPONSE**

In a letter dated February 29, 2008, the Secretary of the Department of Environmental Protection provided a response to our preliminary and tentative audit findings. The letter is included at the end of this report as Appendix B.

Operational audits are conducted to promote accountability in government and improvement in government operations. This operational audit was conducted in accordance with applicable *Generally Accepted Government Auditing Standards*. This audit was conducted by Carl J. Gabrini, CPA, and supervised by Michael E. McCloskey, CPA.

Please address inquiries regarding this report to David R. Vick, CPA, Audit Manager, by e-mail at ([davidvick@aud.state.fl.us](mailto:davidvick@aud.state.fl.us)) or by telephone (850-487-4494). This report and audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone (850-487-9024); or by mail (G74, Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

**APPENDIX A  
IDENTIFICATION OF STATE PROJECTS WITH AND  
WITHOUT COMPLIANCE SUPPLEMENTS (CS)**

CSFA Count	No.	Catalog of State Financial Assistance (CSFA) Title	Fiscal Year Disbursements		Total	Compliance Supplement Prepared?
			2005-06	2006-07		
1	37.003	Beach Erosion Control Program	\$24,534,377	\$43,022,091	\$67,556,468	Yes
2	37.007	Cooperative Collection Center Grant	329,203	329,311	658,514	No
3	37.008	Expanded Local Management Hazardous Waste Program	17,213	41,981	59,194	No
4	37.012	Small County Consolidated Grants	7,127,314	6,340,870	13,468,184	No
5	37.013	Small Quantity Hazardous Waste Generator Grant Program	40,151	38,209	78,360	No
6	37.017	Florida Recreation Development Assistance Program	17,869,535	19,609,071	37,478,606	Yes
7	37.018	Florida Organics Recycling Center of Excellence	329,433	407,688	737,121	No
8	37.022	Water Management Districts - Land Acquisition	328,919,884	309,103,012	638,022,896	No
9	37.024	Local Government Cleanup Contracting	8,500,706	9,364,794	17,865,500	No
10	37.025	Southern Waste Information Exchange Clearinghouse	300,000	300,000	600,000	No
11	37.029	Suwannee River Water Management District Environmental Resource Permitting	700,000	0	700,000	No
12	37.030	Water Management District Permitting Assistance	382,770	396,715	779,485	No
13	37.031	End-of-Life Electronics Management Grants	24,221	0	24,221	No
14	37.039	Statewide Surface Water Restoration and Wastewater Projects	91,701,751	155,590,082	247,291,833	Yes
15	37.042	Ambient Air Monitoring Agreement	1,009,155	1,080,911	2,090,066	No
16	37.043	Delegated Title V Air Pollution Control Activities	2,268,321	2,368,626	4,636,947	No
17	37.047	Statewide Public Outdoor Recreation Projects	93,014	0	93,014	No
18	37.049	GAC Properties, Inc. Consent Order #15-Restricted Funds Projects: City of Cape Coral - Rotary Park and Other Future Projects	56,351	63,779	120,130	No
19	37.050	Innovative Waste Reduction and Recycling Grants	503,384	734,424	1,237,808	No
20	37.051	Charlotte Harbor National Estuary Program Support	75,000	75,000	150,000	No
21	37.052	Florida Springs Initiative Grant Program / Improvement / Management	0	128,069	128,069	No
22	37.053	Statewide Greenways Development	0	348,298	348,298	No
23	37.057	Land and Parks CARL Projects	76,500	76,500	153,000	No
24	37.059	Mine Reclamation Grants	5,144,487	842,971	5,987,458	No
25	37.062	Environmental Studies	44,716	0	44,716	No
26	37.063	Cascades Park Remediation	3,931,695	2,734,080	6,665,775	No
27	37.064	Florida Energy Technology Investments Projects	992,667	679,135	1,671,802	No
28	37.065	2004 Hurricane Recovery Plan Grant Program	21,228,288	19,373,896	40,602,184	No
Total State Financial Assistance (SFA)			<u>\$516,200,136</u>	<u>\$573,049,513</u>	<u>\$1,089,249,649</u>	
Disbursements with CS (Total Amount Represents 32 percent of Total SFA)			<u>134,105,663</u>	<u>218,221,244</u>	<u>352,326,907</u>	3 Yes
Disbursements without CS (Total Amount Represents 68 percent of Total SFA)			<u>382,094,473</u>	<u>354,828,269</u>	<u>736,922,742</u>	25 No
Total State Financial Assistance			<u>\$516,200,136</u>	<u>\$573,049,513</u>	<u>\$1,089,249,649</u>	28 Total

Source: Department accounting records and Department of Financial Services Web site.



APPENDIX B

MANAGEMENT RESPONSE



Florida Department of  
Environmental Protection

Marjory Stoneman Douglas Building  
3900 Commonwealth Boulevard  
Tallahassee, Florida 32399-3000

Charlie Crist  
Governor

Jeff Kottkamp  
Lt. Governor

Michael W. Sole  
Secretary

February 29, 2008

Mr. David W. Martin, CPA  
Office of the Auditor General  
G74 Claude Denson Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Enclosed is the Florida Department of Environmental Protection's response to the preliminary and tentative findings and recommendations pertaining to the Audit of the Department of Environmental Protection, Management of State Financial Assistance for the period July 2005 through February 2007. If you have questions in this regard, please call Joseph Aita, Director of Auditing, at 850-245-3151. Thank you for the opportunity to respond.

Sincerely,

Michael W. Sole  
Secretary

PGH/ja/ksr  
Enclosure

cc: Gwenn Godfrey, General Services, DEP  
Pinky Hall, Inspector General, DEP  
Rufus Noble, Division of Administrative Services, DEP  
Lynda Watson, Finance and Accounting, DEP

## APPENDIX B

MANAGEMENT RESPONSE  
(CONTINUED)**Department of Environmental Protection Response  
Preliminary and Tentative Findings  
Management of State Financial Assistance  
January 31, 2008**

**Finding No. 1 Response:** Prior to July 1, 2005, the Executive Office of the Governor (EOG) had the authority for approving State Project Compliance Supplements. Pursuant to EOG's requests, the Department provided compliance supplements for programs meeting statewide criteria. Beginning in January 2007, the Department of Financial Services (DFS) requested compliance supplements as part of the process for establishing a new catalog of state financial assistance. Recognizing that all projects may not need a compliance supplement, the Department intends to provide DFS, at the time of requesting the creation of a new Catalog of State Financial Assistance (CSFA), a compliance supplement for the project or our determination that a compliance supplement is not warranted. In addition, the Department will review all active CSFAs to identify projects appropriate for the development of compliance supplements.

The Department has long standing established procedures for implementation of the Florida Single Audit Act, including procedures to ensure that CSFA numbers are established for all state financial assistance (SFA) projects and that all SFA project transactions are properly identified in the Department's accounting records. As discussed during the audit exit conference, a CSFA number was not established for the local government air pollution control program created by Section 320.03(6), Florida Statutes, based on the EOG determination that this program did not meet the criteria for state financial assistance. However, based on our recent review of the program, we concur with the Auditor General's recommendation that the local government air pollution control program should be classified as state financial assistance. Therefore, a CSFA number (37.072) has been assigned and this program will now fall under established procedures for compliance with the Florida Single Audit Act.

**Finding No. 2 Response:** The Department has revised its Contract and Grant Manager Training Program and offered its first training program on February 19<sup>th</sup>. Under our training programs (past and present) we stress the importance of ensuring that the documentation supporting the invoice coincides with the service period covered by the invoice and authorized by the grant agreement. We will continue to make this a priority with our Finance and Accounting staff and contract/grant managers.

**Finding No. 3 Response:** The Department has developed a standard report to be used for requesting the "Certification of Applicability to Single Audit Act Reporting" from recipients. The new report incorporates the search criteria established by the Auditor General's Office for this audit.

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