



Summary

Report Number: [2010-165](#)

Report Title: **State of Florida - Compliance and Internal Controls Over Financial Reporting and Federal Awards**

Report Period: **FYE 06/30/2009**

Release Date: **03/26/2010**

Scope

As a condition of receiving Federal funds, the U.S. Office of Management and Budget (OMB) requires, as described in OMB Circular A-133, an audit of the State's financial statements and major Federal awards programs. Pursuant to Section 11.45, Florida Statutes, we conducted an audit of the basic financial statements of the State of Florida as of and for the fiscal year ended June 30, 2009. We also subjected supplementary information contained in the State's Comprehensive Annual Financial Report and the State's Schedule of Expenditures of Federal Awards to auditing procedures applied in our audit of the basic financial statements. Additionally, we audited the State's compliance with governing requirements for the Federal awards programs or program clusters that we identified as major programs for the fiscal year ended June 30, 2009.

Summary of Report on Financial Statements

The State of Florida's basic financial statements, as of and for the fiscal year ended June 30, 2009, were fairly presented in all material respects, in accordance with accounting principles generally accepted in the United States. Our report is included in the [Florida Comprehensive Annual Financial Report](#) for fiscal year ended June 30, 2009, issued by the Chief Financial Officer.

[Summary of Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards](#)

Internal Control Over Financial Reporting

We noted the following matters involving the internal control over financial reporting and its operation to be significant deficiencies:

- The **Agency for Health Care Administration** did not record a receivable and deferred revenue to represent its claim on Federal financial resources related to incurred but not reported (IBNR) Medicaid claims liabilities. (Finding No. FS 09-001)
- For receivable and related financial statement accounts, we found that the **Agency for Health Care Administration** and the **Departments of Education and Revenue**, and the **Agency for Workforce Innovation** did not properly accrue revenues due in accordance with generally accepted accounting principles. (Finding Nos. FS 09-002, FS 09-003, FS 09-004, FS 09-005, FS 09-006, and FS 09-007)

- For accounts payable and accrued liability accounts, the **Agency for Workforce Innovation** did not correctly record amounts due related to benefit payments. Additionally, the **Agency for Workforce Innovation** did not properly record a receivable to represent its claim on Federal financial resources for the payment of the Federally-funded portion of unemployment benefit payments. (Finding No. FS 09-008)
- For one or more financial statement accounts, the **Executive Office of the Governor** and the **Departments of Transportation, Management Services,** and **Financial Services** did not accurately report or classify assets, net assets, revenues, expenses, or liabilities in accordance with generally accepted accounting principles. (Finding Nos. FS 09-009, FS 09-010, FS 09-011, FS 09-012, and FS 09-013)

We consider the significant deficiencies described above relating to finding Nos. FS 09-001 through FS 09-008 to be material weaknesses.

We noted additional matters that were reported to management but that we did not consider to be significant deficiencies or material weaknesses.

- For one or more financial statement accounts, the **Departments of Revenue, Management Services,** and **Financial Services** did not accurately report or classify assets, net assets, revenues, expenses, or liabilities in accordance with generally accepted accounting principles. (Finding Nos. FS 09-014, FS 09-015, and FS 09-016)
- The **Department of Management Services** used a long-term investment rate assumption in determining the actuarial accrued liability for the Health Insurance Subsidy Pension plan that was not commensurate with the nature and mix of current and expected plan investments. The actuarial accrued liability is reported as required supplementary information to the basic financial statements. (Finding No. FS 09-017)
- The **Department of Financial Services** did not have sufficient procedures or did not completely follow established procedures to ensure that adjustments having an effect on fund balance accounts were correctly made and that all disclosures related to prior period adjustments were made. (Finding No. FS 09-018)
- The **Department of Financial Services'** processes for comparison of the Schedule of Expenditures of Federal Awards to the financial statements did not include the investigation and resolution of differences shown at the agency level. (Finding No. FS 09-019)

Compliance

The results of our audit of the State's basic financial statements disclosed no instances of noncompliance that are required to be reported by *Government Auditing Standards*.

[Summary of Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133](#)

State agencies, universities, and community colleges administered over 560 Federal awards programs or program clusters during the 2008-09 fiscal year. Expenditures for the 39 major programs totaled \$28.7 billion, or approximately 95 percent of the total expenditures of \$30.2 billion, as reported on the supplementary Schedule of Expenditures of Federal Awards.

Compliance requirements for major programs are identified pursuant to the OMB *Circular A-133 Compliance Supplement*. Types of compliance requirements include: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis-Bacon Act; Eligibility; Equipment and Real Property Management; Matching, Level of Effort, Earmarking; Period of Availability of Federal Awards; Procurement and Suspension and Debarment; Program Income; Real Property Acquisition/Relocation Assistance; Reporting; Subrecipient Monitoring; and Special Tests and Provisions.

Compliance

For the Unemployment Insurance Program, we were not able to audit the State's compliance with certain requirements included as Special Tests and Provisions, because the **Department of Revenue** did not maintain detailed records or data files to support the underlying computations used in the determination of the 2009 calendar year employers' unemployment tax contribution rates. (Finding No. FA 09-014)

The State of Florida complied, in all material respects, with the compliance requirements applicable to each of its other major Federal awards programs, except as described in the following instances, which resulted in opinion qualifications:

- The **Department of Children and Family Services** did not document, in a significant number of instances, the eligibility of clients to receive benefits under the Medicaid Cluster. Additionally, data exchange responses received were not processed timely. (Finding No. FA 09-059)
- **Agency for Health Care Administration** procedures did not reasonably ensure that current provider agreements were in effect for Medicaid providers receiving payments. (Finding No. FA 09-062)
- The **Department of Children and Family Services** did not meet the maintenance of effort requirement for the Block Grants for Community Mental Health Services. (Finding No. FA 09-067)
- The **Department of Children and Family Services** procedures did not provide for independent peer reviews for at least 5 percent of the entities providing Substance Abuse Prevention and Treatment Program services. (Finding No. FA 09-068)
- The **Division of Emergency Management's** final inspections and project closeout procedures did not provide an adequate and timely accounting of eligible costs for completed large projects. Additionally, **Division of Emergency Management** records were inaccurate and incomplete. (Finding No. FA 09-084)

The results of our audit also disclosed other instances of noncompliance pertaining to programs administered by **various State agencies, universities, and community colleges** as described in the SCHEDULE OF FINDINGS AND QUESTIONED COSTS. Some of the instances of noncompliance resulted in questioned costs subject to disallowance by the grantor agency.

Internal Control Over Compliance

We noted numerous matters at **various State agencies, universities, and community colleges** involving internal control over compliance and its operation that we consider to be significant deficiencies. Significant deficiencies are described in the SCHEDULE OF FINDINGS AND QUESTIONED COSTS and pertained to several compliance requirements. The following significant deficiencies were considered material weaknesses:

- The **Department of Military Affairs** did not have procedures in place to ensure compliance with the provisions of the Davis-Bacon Act. Additionally, the **Department of Military Affairs** did not have procedures in place to determine whether vendors were debarred or suspended prior to entering into agreements equal to or greater than \$25,000, for the National Guard Operations and Maintenance Projects Program. (Finding Nos. FA 09-005 and FA 09-006)
- For the Child Support Enforcement Program, **Department of Revenue** procedures did not always provide for timely establishment of support obligations or commencement of proceedings to establish support obligations and, if necessary, paternity, within the required time frame. The **Department of Revenue** also did not have controls in place to utilize the National Medical Support Notice (NMSN) which provides notice of Federal requirements to employers concerning obligations to provide health care coverage for children of noncustodial parents, when appropriate. Additionally, **Department of Revenue** procedures did not always provide for the provision of required child support services for interstate cases within the specified time frames. (Finding Nos. FA 09-048, FA 09-049, and FA 09-050)

- The instances described in the previous paragraphs on compliance for the Unemployment Insurance Program (Finding No. FA 09-014); Medicaid Cluster (Finding Nos. FA 09-059 and FA 09-062); Block Grants for Community Mental Health Services (Finding No. FA 09-067); and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program (Finding No. FA 09-084) also involved material weaknesses in internal control.

Schedule of Expenditures of Federal Awards

The State's supplementary Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the State's basic financial statements. The State's SEFA does not include the State's blended component units, Workforce Florida, Inc., and Scripps Florida Funding Corporation; discretely presented component units of the State's universities and community colleges; or discretely presented component units other than the State's universities and community colleges. Information on the SEFA is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

American Recovery and Reinvestment Act of 2009 (ARRA)

During the 2008-09 fiscal year, the State of Florida received and expended over \$1.8 billion in Federal funding provided pursuant to the ARRA. The United States Congress mandated additional reporting and transparency requirements to be met by recipients of ARRA funds, and the Federal Single Audit has been identified as one of the tools that will be used to measure the degree of stewardship and accountability provided by the states for moneys provided under ARRA. Expenditures of ARRA funds are separately identified on the supplementary Schedule of Expenditures of Federal Awards. Programs that included ARRA funds, and for which findings are disclosed in the SCHEDULE OF FINDINGS AND QUESTIONED COSTS, are distinctively identified in the INDEX OF FINDINGS BY FEDERAL AGENCY AND COMPLIANCE REQUIREMENT.

Objectives

The objectives of our audit were:

- The expression of opinions concerning whether the State's basic financial statements were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States.
- The expression of an opinion concerning whether the State's Schedule of Expenditures of Federal Awards is presented fairly, in all material respects, in relation to the State's basic financial statements taken as a whole.
- To obtain an understanding of the internal control over compliance for each major Federal program, assess the control risk, and perform tests of controls, unless the controls were deemed to be ineffective.
- The expression of opinions concerning whether the State complied, in all material respects, with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect applicable to each of the major Federal programs.

Methodology

We conducted our audit in accordance with auditing standards generally accepted in the United States; applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and related guidance provided by OMB Circular A-133.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS



[Part A - State Agencies](#)



[Part B - State Universities](#)



[Part C - State Community Colleges](#)

Written responses from the State agencies, universities, and community colleges to our findings and recommendations are included within the audit report which can be viewed on the Auditor General Web site.