

DEPARTMENT OF HEALTH
FLORIDA BIOMEDICAL RESEARCH PROGRAM

Operational Audit



STATE SURGEON GENERAL AND STATE HEALTH OFFICER

The Department of Health is created by Section 20.43, Florida Statutes. The head of the Department is the State Surgeon General and State Health Officer who is appointed by the Governor subject to confirmation by the Senate. The following individuals served as the State Surgeon General and State Health Officer during the period of our audit

Dr. John H. Armstrong	From May 23, 2012
Dr. Steven Harris, Interim	From March 13, 2012, through May 22, 2012
Dr. Harry Frank Farmer, Jr.	Through March 9, 2012

The audit team leader was Leslee Walker, CPA, and the audit was supervised by Karen Van Amburg, CPA. Please address inquiries regarding this report to Lisa A. Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 412-2831.

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DEPARTMENT OF HEALTH

Florida Biomedical Research Program

SUMMARY

This operational audit of the Department of Health (Department) focused on the Department's administration of the Florida Biomedical Research Program (Program). Our audit disclosed the following:

PROGRAM ADMINISTRATION

Finding No. 1: The Program experienced significant staff turnover and the Department had not established sufficient written policies and procedures to provide for the continuity of efficient and effective Program operations when Program staff have limited Program knowledge and experience.

CONTRACT AND GRANT MANAGEMENT

Finding No. 2: Program staff did not document the reasonableness of the administrative services provider's contract amount, nor did Program staff adequately monitor the administrative services provider's activities. Additionally, contrary to State law and Department policies and procedures, Department management did not ensure that the individuals assigned as contract managers for the administrative services provider's contract were Department employees, were supervised by a Department employee, and had attended statutorily required training.

Finding No. 3: Program staff did not monitor Program grant recipients. Also, the Department did not always ensure that Program grant agreements were properly executed, reviewed, or contained all the provisions required by State law and Department policies and procedures. In addition, the Department paid amounts to certain recipients that exceeded the amounts expended by the recipients.

PROGRAM EXPENDITURES

Finding No. 4: Department policies and procedures did not ensure the appropriate identification and coding of Program administrative expenditures. Additionally, the Department did not adequately support its allocation of Program administrative expenditures or demonstrate that administrative expenditures did not exceed statutory limits.

Finding No. 5: Department controls did not always prevent improper Program expenditures or ensure the accurate recording and reporting of Program expenditures and grant information.

BACKGROUND

The Department of Health (Department), Division of Community Health Promotion, Public Health Research Section, administered the Florida Biomedical Research Program (Program). The Program included two grant-funding programs: the James and Esther King Biomedical Research Program (JEK) and the Bankhead-Coley Cancer Research Program (BCP).¹ According to State law, the Program is to allow any university or established research institute in Florida to apply for grant funding and Program awards are to be made on the basis of scientific merit, as determined by a competitive, open peer-reviewed process that ensures objectivity, consistency, and high quality.

Funds credited to the Department's Biomedical Research Trust Fund (BRTF)² are to be used to carry out the purposes of the Program. In addition to the BRTF funds, the Program has received General Revenue funding. Table 1 shows Program appropriations and available funding³ for the 2011-12 and 2012-13 fiscal years.

¹ Sections 215.5602 and 381.922, Florida Statutes.

² Section 20.435(8), Florida Statutes.

³ Appropriations represent the legal authority to expend funding. The amount of appropriated funds may exceed the actual amount of funding available to be expended.

**Table 1
Program Appropriations and Available Funding (in Millions) by State Fiscal Year**

Program Purpose	Funding Source	Appropriations		Available Funding	
		2011-12	2012-13	2011-12	2012-13
JEK	Biomedical Research Trust Fund	\$ 7.15	\$ 7.15	\$ -	\$ -
	Cigarette and Tobacco Surcharges ^a	-	-	4.95	5.00
	Lawton Chiles Endowment Fund ^b	—	—	1.20	1.16
	Total JEK Appropriations and Funding	\$ 7.15	\$ 7.15	\$ 6.15	\$ 6.16
BCP	Biomedical Research Trust Fund	\$ 5.00	\$ 5.00	\$ -	\$ -
	Cigarette and Tobacco Surcharges ^a	-	-	5.00	5.00
	General Revenue	4.50	—	4.50	—
	Total BCP Appropriations and Funding	\$ 9.50	\$ 5.00	\$ 9.50	\$ 5.00
Other Entity ^c Funding	Biomedical Research Trust Fund	\$15.00	\$15.00	\$15.00	\$15.00
	General Revenue	—	8.00	—	8.00
	Total Other Appropriations and Funding	\$15.00	\$23.00	\$15.00	\$23.00
Totals		\$31.65	\$35.15	\$30.65	\$34.16

^a Section 215.5602(12)(a), Florida Statutes, requires that a portion of the cigarette and tobacco surcharge revenue collected by the State be transferred to the BRTF.

^b Section 215.5601(5)(a)1., Florida Statutes, requires that appropriations to the Department from endowment earnings from the principal set aside for biomedical research in the Lawton Chiles Endowment Fund be deposited into the BRTF for the JEK. For the 2011-12 and 2012-13 fiscal years, the amount of earnings available for deposit was less than the amount appropriated.

^c The General Appropriations Acts and Section 215.5602(12)(a), Florida Statutes, required the Department to provide specified amounts of biomedical research funding to specified entities. For the 2011-12 fiscal year, the Department was to provide funding to the H. Lee Moffitt Cancer Center and Research Institute, Shands Cancer Hospital, and Sylvester Cancer Center at the University of Miami. For the 2012-13 fiscal year, the Department was required to provide funding to the H. Lee Moffitt Cancer Center and Research Institute, Shands Cancer Hospital, Sylvester Cancer Center at the University of Miami, and the Sanford-Burnham Medical Research Institute.

Sources: Chapters 2011-69 and 2012-118, Laws of Florida; Sections 215.5601(5)(a)1. and 215.5602(12)(a), Florida Statutes; and Department accounting records.

James and Esther King Biomedical Research Program (JEK)

State law⁴ establishes the JEK to provide an annual and perpetual source of funding to support research initiatives that address the health care problems of Floridians in the areas of tobacco-related cancer, cardiovascular disease, stroke, and pulmonary disease. The JEK is funded from interest earned by the Lawton Chiles Endowment Fund and a portion of the surcharges on cigarettes and other tobacco products deposited into the Agency for Health Care Administration’s Health Care Trust Fund.⁵ The JEK has the following long-term, statutorily mandated goals:

- To improve the health of Floridians by researching better prevention, diagnoses, treatments, and cures for cancer, cardiovascular disease, stroke, and pulmonary disease.
- To expand the foundation of biomedical knowledge relating to the prevention, diagnosis, treatment, and cure of diseases related to tobacco use, including cancer, cardiovascular disease, stroke, and pulmonary disease.
- To improve the quality of the State’s academic health centers by bringing the advances of biomedical research into the training of physicians and other health care providers.

⁴ Section 215.5602, Florida Statutes.

⁵ Sections 210.011(9), 210.276(7), and 215.5602(12), Florida Statutes.

- To increase the State's per capita funding for research by undertaking new initiatives in public health and biomedical research that will attract additional funding from outside the State.
- To stimulate economic activity in the State in areas related to biomedical research, such as the research and production of pharmaceuticals, biotechnology, and medical devices.

Bankhead-Coley Cancer Research Program (BCP)

State law⁶ establishes the BCP to advance progress towards cures for cancer through grants awarded through a peer-reviewed, competitive process. The BCP was funded during the 2011-12 and 2012-13 fiscal years by a portion of the surcharges on cigarettes and other tobacco products deposited into the Health Care Trust Fund. During the 2011-12 fiscal year, the BCP also received General Revenue funding. Pursuant to State law,⁷ the BCP provides grants for cancer research to further the search for cures for cancer, with emphasis on the following goals:

- Significantly expanding cancer research capacity in the State.
- Improving both research and treatment through greater participation in clinical trials networks.
- Reducing the impact of cancer on disparate groups.

As of March 1, 2013, the Program had 171 active grants (81 JEK grants and 90 BCP grants) with awards totaling \$85,776,124.

FINDINGS AND RECOMMENDATIONS

Program Administration

Finding No. 1: Program Staffing and Policies and Procedures

As part of our audit we evaluated the Program's organizational structure and staffing and noted that, during the period July 2011 through December 2012, the Department assigned responsibility for administering the Florida Biomedical Research Program (Program) to staff under contract with the Department or in positions classified as Other Personal Services (OPS).⁸ These types of employment are generally used for temporary or short-term staffing needs.

We also noted that the Program had experienced significant staff turnover and that, during the period July 2012 through June 2013, as few as one position administered the Program and managed the JEK and BCP grants. Specifically:

- *July 2011 through December 2011* - Four contracted staff and one OPS employee administered the Program. In December 2011, the staffing contract expired and the Department hired the four previously contracted staff as OPS employees.
- *January 2012 through July 2012* - Each of the four former contracted staff separated from Department OPS employment during March 2012 through July 2012. In July 2012, the original OPS employee transitioned to a contracted staff position.
- *August 2012 through December 2012* - The Program was administered by the contracted staff person until a new OPS employee was hired in October 2012. The contracted staff person then terminated from the Program in December 2012.
- *January 2013 through June 2013* - Effective January 14, 2013, the Department hired a full-time employee to administer the Program and, in February 2013, the OPS employee terminated employment. In April 2013, a

⁶ Section 381.922, Florida Statutes.

⁷ Section 381.922(2), Florida Statutes.

⁸ OPS employment is a temporary employer and employee relationship used for accomplishing short-term or intermittent tasks. OPS employees do not fill established positions and are paid at an hourly rate.

second full-time employee was hired. As of June 2013, the Program was staffed by two full-time employees with 7 and 4 months of Program experience, respectively.

We also examined the Department's policies and procedures related to the Program and found that there was insufficient detail to provide for the continuity of efficient and effective Program operations when staff lacked historical Program knowledge and experience. For example, the policies and procedures did not provide detailed grantee monitoring guidelines or include an example monitoring instrument. Established policies and procedures containing detailed information, instructions, and guidelines for all aspects of Program administration are essential to ensure continuity of operations, compliance with applicable laws and rules, and the safeguarding of assets. When high or frequent staff turnover occurs, the importance of detailed policies and procedures is increased as, overall, the staff's knowledge and direct experience with Program operations decreases.

The turnover in Program staffing, the limited number of positions administering the Program, and insufficiently detailed policies and procedures may have contributed to the noncompliance and deficiencies noted in finding Nos. 2 through 5 of this report.

Recommendation: We recommend that Department management continue to evaluate the appropriate level and types of Program staffing needed to best ensure the efficient and effective administration of the Program. Additionally, we recommend that the Department enhance its written policies and procedures to provide Program staff with the information, instructions, and guidelines necessary to ensure compliance with applicable laws and rules and promote efficient and effective Program administration.

Contract and Grant Management

Finding No. 2: Administrative Services Provider Contract

State law⁹ specifies requirements for contracts procured by State agencies. One such requirement provides that, for each contractual services contract, agencies designate an employee to function as the contract manager who is responsible for enforcing performance of the contract terms and conditions. State law¹⁰ also requires each contract manager who is responsible for contracts in excess of \$35,000 attend training conducted by the Chief Financial Officer for accountability in contract and grant management.

Department policies and procedures¹¹ specify that only Department employees can be designated as contract managers and that contract manager responsibilities must not be assigned to an independent contractor or to Department staff supervised by an independent contractor. In addition, Department policies and procedures require contract managers to conduct programmatic monitoring of contracted providers by reviewing and analyzing reports submitted by the provider, and by performing on-site monitoring of the provider using a monitoring tool developed by the Department's Contract Administration Unit.

⁹ Section 287.057, Florida Statutes.

¹⁰ Section 287.057(14), Florida Statutes. Pursuant to Chapter 2013-154, Laws of Florida, effective July 1, 2013, Section 215.971, Florida Statutes, was revised to require that, for each agreement funded with Federal or State financial assistance, State agencies designate an employee to function as a grant manager and that each grant manager who is responsible for agreements in excess of \$35,000 must, at a minimum, complete training conducted by the Chief Financial Officer for accountability in contract and grant management. Additionally, Chapter 2013-154, Laws of Florida, requires that, effective December 1, 2014, each grant manager who is responsible for agreements in excess of \$100,000 annually must complete training in contract management and become a certified contract manager.

¹¹ Department, Bureau of General Services, *Contractual Services Policy and Procedures* (DOHP 250-14-11).

To assist with Program administration for the JEK and the BCP, the Department contracted with an administrative services provider. The administrative services provider’s 3-year contract began in October 2010 and, as of July 2012, the contract amount was \$6,440,924.

The contract’s scope of work included, but was not limited to: developing grant programs, policies, and procedures; developing comprehensive Web-based grant application procedures; processing and approving grant applications; monitoring grant projects; and developing and maintaining databases and systems to measure, evaluate, and report Program and grantee performance and outcomes. As the contracted administrative services provider performed Program functions, the Department relied on controls established by the provider to ensure the proper administration of the Program’s grants.

Our audit included procedures to analyze and evaluate the Department’s administrative services provider contract management activities during the period July 2011 through February 2013. Payments made to the provider during this period totaled \$5,211,286. Our audit procedures disclosed deficiencies related to documentation of contract pricing decisions, contract monitoring, and the assignment and training of contract managers. Specifically:

- The Department negotiated an original contract price of \$8.32 million with the administrative services provider based on the grant award and monitoring activities necessary to administer the \$42.20 million appropriated for the JEK and the BCP for the 2010-11 fiscal year. However, although appropriations for the 2011-12 fiscal year decreased by \$25.55 million (61 percent) from the prior fiscal year, the Department did not reduce the contract amount until a contract amendment was executed on July 1, 2012. Department documentation supporting the amendment did not evidence how the amended contract amount of \$6.44 million was determined and our analysis indicated that the \$1.88 million reduction in the contract amount was not in proportion to the decrease in the Program appropriations and the resultant reduction in required grant award and monitoring activities. Table 2 shows the percentage of Program appropriations needed to fund the contract amount for the 2010-11 through 2012-13 fiscal years.

Table 2
Administrative Services Provider Contract Amount
as a Percentage of Program Appropriations
for the 2010-11 Through 2012-13 Fiscal Years

Fiscal Year	(a)	(b)	(c)	(d)
	3-Year Contract Amount (in Millions)	Annualized Contract Amount (in Millions) [(a)/3]	Annual Program JEK and BCP Appropriations (in Millions)	Percentage of Appropriations Needed to Fund the Contract Amount [(b)/(c)]
2010-11	\$8.32	\$2.77	\$42.20	6.56%
2011-12	\$8.32	\$2.77	\$16.65	16.64%
2012-13	\$6.44	\$2.13	\$12.15	17.53%

Source: Department contract files and budget records.

- Although required by Department policies and procedures, Program staff did not perform any programmatic monitoring of the administrative services provider.
- Contrary to provisions of State law and Department policies and procedures, contract management for the administrative services provider contract was performed by a contracted employee for 6 months, and by a Department employee who was supervised by a contracted employee for another 6 months.
- For two of the three staff who served as contract manager for the administrative services provider contract, the Department could not provide documentation to evidence attendance at the statutorily required training conducted by the Chief Financial Officer.

Also, our review of the administrative services provider contract document disclosed that the contract did not contain a provision requiring the provider to submit an independent service auditor's report¹² addressing the controls established by the provider relevant to the Program services performed. In the absence of such a contract provision, the provider did not submit an independent service auditor's report and the Department did not otherwise seek an independent evaluation of, or request an independent service auditor's report related to, the controls designed and established by the administrative services provider for the Program.

Absent documentation evidencing the basis of the determination of the amended contract amount, the Department cannot demonstrate that amounts paid to the administrative services provider were reasonable considering Program appropriation levels and the resultant grant award and monitoring activities required. In addition, the lack of monitoring and the absence of an independent service auditor's report, or other independent evaluation of the provider's controls, increase the risk that a weakness in the provider's controls or processes could exist and remain undetected. Finally, the assignment of contract managers who are not Department employees, are not supervised by Department employees, or have not received the required training, reduces the Department's assurances that contract management activities will ensure the proper delivery of services and adequately protect the Department's interests.

Recommendation: We recommend that Department management:

- Ensure that contract pricing decisions are appropriately documented and, when significant changes to Program appropriations and activities occur, that contract amounts are timely and appropriately amended.
 - Ensure that the administrative services provider's performance is timely monitored and that the monitoring efforts and results are appropriately documented.
 - Require that the administrative services provider obtain and submit to the Department independent service auditor's reports that address the provider's controls relevant to the Program. The Department should review the reports upon receipt and take timely follow-up actions for any noted deficiencies.
 - Ensure that, as required by State law and Department policies and procedures, a Department employee who is supervised by a Department employee and has received the required training is assigned as the contract manager for the administrative services provider contract.
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Finding No. 3: Grant Management

To execute Program grants, the Department enters into contracts with grant recipients. Department policies and procedures¹³ require that, before a contract is executed, the contract be subjected to program, financial, and legal reviews and approvals. The Department's policies and procedures also require that Department staff complete a checklist identifying the Florida Single Audit Act (FSAA)¹⁴ requirements applicable to each contract to ensure that grant recipients are provided with the information needed to comply with the requirements of the FSAA.

Effective contract and grant management requires the monitoring of contractor and grantee performance to determine compliance with contract and grant provisions and to provide a means for early detection of potential

¹² A service auditor's report, as described by the American Institute of Certified Public Accountants, Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*, provides information and auditor conclusions related to a service organization's controls. Service organizations make service auditor's reports available to user organizations to provide assurances related to the effectiveness of the service organization's relevant internal controls.

¹³ Department, Bureau of General Services, *Contractual Services Policy and Procedures* (DOHP 250-14-11).

¹⁴ Section 215.97, Florida Statutes.

performance problems. To demonstrate effective contract and grant management, monitoring procedures, plans, and activities, including periodic on-site monitoring visits, should be documented in Department records. The policies and procedures established for Program grants contain requirements that promote effective grant management and facilitate the monitoring of grantee performance and compliance. For example:

- For multi-year grants, Program staff are to perform at least one site visit during the grant period. Following the site visit, Program staff are to provide the recipient with a written report of findings and recommendations and then follow-up to ensure that the recipient corrected all noted deficiencies within a specified period.
- Department approval is required prior to certain changes to grant terms, including, but not limited to, changes in key grantee personnel, budgets, and protocol.
- For multi-year grants, grant recipients are to submit continuation requests and Program staff are to evaluate the requests based on the recipient's budget justification, scientific progress, and compliance with grant terms and conditions.

During the period July 2011 through February 2013, the Department executed 77 grant agreements with awards totaling \$23,126,886 to various entities for JEK and BCP research. Recipients were required, under the terms of the grant agreements, to complete the work as proposed in the grant application and submit to the Department quarterly progress summaries and financial reports. Our examination of Department records for 12 of the grant agreements with awards totaling \$5,316,512 disclosed that:

- Grant agreements and related amendments were not always reviewed and approved in compliance with Department policies and procedures. Specifically:
 - For all 12 grant agreements, Department legal staff did not review or approve the grant terms, conditions, or amendments.
 - For 8 grant agreements, no documentation was available to demonstrate that Program staff had determined whether the requirements of the FSAA applied to the grant.
- Program staff did not always manage or monitor Program grants in accordance with the requirements of Department policies and procedures. Specifically:
 - Program staff had not performed programmatic or administrative monitoring to determine whether the recipients for the 12 grant agreements had complied with grant terms and conditions. The performance of monitoring would help the Department evaluate grantee progress and verify that amounts paid were commensurate with the grantee's progress. Although the grantees submitted periodic progress reports reflecting amounts expended and the progress made toward meeting grant terms and conditions, it was not always apparent from Department records that Program staff had reviewed, and taken appropriate actions related to, the information included in the reports. For example, for 9 of the 12 grant agreements, Department payments to recipients exceeded the recipients' expenditures. For these 9 grant agreements, amounts paid to recipients in excess of amounts expended by the recipients totaled \$701,983 as of December 31, 2012, and ranged from \$16,004 (11.9 percent of the annual grant amount) to \$366,746 (73.3 percent of the annual grant amount).
 - For 8 grant agreements, Program staff did not review and approve changes made to recipient budget, expenditure, key personnel, and protocol grant terms.
 - Six of the 12 grant agreements had been continued; however, Program staff did not evaluate the recipients' requests for continuation for these 6 grant agreements prior to continuation.

As shown in Table 1 in the **BACKGROUND** section of this report, in addition to providing funding for the JEK and BCP grants, the General Appropriations Acts¹⁵ provided biomedical research funding totaling \$15 million to three

¹⁵ Chapters 2011-69 and 2012-118, Laws of Florida.

entities for the 2011-12 fiscal year and, for the 2012-13 fiscal year, funding totaling \$23 million to four entities. Our examination of Department documentation disclosed that, while the Department distributed the 2011-12 fiscal year funding to the three entities, the Department had executed an agreement with only one entity. For the 2012-13 fiscal year, the Department had executed agreements with all four entities; however, the agreements with three of the four entities were not executed until January 2013, after the Department had distributed \$10 million to the three entities. Additionally, our review of Department monitoring efforts for these entities during both the 2011-12 fiscal year and the period July 1, 2012, through April 30, 2013, disclosed that, other than a progress report containing evidence of Program staff review in one instance, the Department was unable to provide any documentation, such as evidence of on-site monitoring visits or desk reviews, to demonstrate that the Department had verified that the entities spent the funds on biomedical research as required by State law.

Adherence to Department policies and procedures is essential to ensure the proper execution and review of grant terms and conditions, as well as compliance with governing laws. Additionally, absent proper grant management and grant recipient monitoring, the Department has reduced assurance that recipients complied with all the grant terms and conditions and that Program funds were effectively and efficiently used for only the intended purposes.

Recommendation: We recommend that Department management provide the appropriate oversight of Program activities, including grant management and monitoring, to ensure Program compliance with the requirements of Department policies and procedures and State law.

Program Expenditures

Finding No. 4: Identification and Allocation of Administrative Expenditures

State law¹⁶ provides that funds credited to the Biomedical Research Trust Fund (BRTF) are to be used for the purposes of the Program. State law further provides that the balance of any appropriation in the BRTF that is not disbursed, but which is obligated pursuant to contract or committed to be expended, may be carried forward for up to 5 years following the effective date of the original appropriation.

Use of BRTF funds for administrative expenditures are limited by State law¹⁷ to 15 percent of the total funds available to the JEK in any given year and to 10 percent of the total funds appropriated for the BCP. To demonstrate compliance with these statutory limits, it is imperative that the Department appropriately identify and accurately allocate applicable administrative expenditures to the JEK and the BCP.

According to Department records, during the period July 2011 through February 2013, the Department expended approximately \$4.5 million for Program administrative costs. Our audit tests of the Department's processes for identifying and allocating Program administrative expenditures disclosed that the Department did not have adequate procedures in place to properly identify or document the allocation of administrative expenditures to the JEK and the BCP. Specifically, we found that:

- The Department had established, within its FLAIR accounting records, unique category codes that identified current year funding, by program, as well as unique category codes that identified, by the fiscal year of the original appropriation, any unused prior year funding. However, the Department had not established Other Cost Accumulator (OCA) codes to differentiate between payments for administrative costs and direct grant payments when prior year appropriations were used. Without such codes, the Department may be limited in its ability to demonstrate that amounts carried forward for specific contract obligations and commitments are

¹⁶ Section 20.435(8), Florida Statutes.

¹⁷ Sections 215.5602(8) and 381.922(4), Florida Statutes.

used for the intended purposes, and to demonstrate compliance with the statutory limits placed on administrative expenditures. For example, the Department paid \$3,943,487 to the Program's contracted administrative services provider during the period July 2011 through February 2013. In doing so, the Department utilized funds totaling \$1,456,458 carried forward from the 2009-10 and 2010-11 fiscal year appropriations. Absent OCA codes that identify the type of payment, the Department could not demonstrate that the \$1,456,458 paid to the Program's contracted administrative services provider was funded solely from the prior fiscal years' funds that had been obligated pursuant to the administrative services provider's contract and that funding carried forward for grant agreements or other obligations or commitments was not utilized.

- The Department generally allocated the \$3,943,487 paid to the administrative services provider during the period July 2011 through February 2013 equally to the JEK and the BCP. However, in response to our audit request, the Department was unable to provide documentation demonstrating that the services performed by the provider were of equal benefit to both programs.
- During the period July 2011 through February 2013, the Department paid salaries and benefits totaling \$297,339 for Department employees and contracted staff who worked for the Program. Our audit disclosed that, of this amount, \$192,571 was charged to the JEK and \$104,768 was charged to the BCP. However, in response to our audit request, Department management was unable to provide documentation, such as an analysis of the time worked on each program, to support the basis for the amount of salaries and benefits charged to each program.

Limits on administrative expenditures are designed to ensure that funds appropriated to State programs are used primarily for direct program purposes, rather than administrative costs. Absent the establishment of separate accounting codes for administrative costs and grant payments by grant-funding program, and documentation to support the allocation of administrative expenditures to the JEK and the BCP, the Department cannot demonstrate that amounts were equitably allocated or that each program's administrative expenditures did not exceed the statutory limits.

Recommendation: We recommend that Department management establish unique accounting codes for the JEK and the BCP to differentiate between payments for administrative costs and direct grant payments when appropriations carried forward from prior fiscal years are used. We also recommend that the Department analyze work activity and other relevant factors to establish and document the basis for allocating administrative costs to the JEK and the BCP.

Finding No. 5: Coding and Appropriateness of Expenditures

To carry out the Program's goals, the Department expended \$748,922 during the period July 2011 through December 2012 for administrative costs related to such things as salaries and benefits, travel, communications, software licenses, and copying. To ensure the appropriateness of Program expenditures, the Department has the responsibility to establish and implement controls, including controls to prevent improper payments. Such controls should include, but not be limited to, the appropriate separation of duties; verification that, prior to payment, amounts are accurate and adequately supported; and procedures for the accurate coding of transactions.

As part of our audit, we examined documentation for selected transactions incurred during the period July 2011 through December 2012, including: 120 Program administrative expenditure transactions (including, but not limited to, transactions for salaries and travel costs) totaling \$89,531, 39 payments totaling \$3,341,824 made to the contracted administrative services provider, and 40 payments totaling \$2,235,204 made to grant recipients. We noted that the Department's controls did not always provide for adequate separation of duties; ensure that, prior to payment, sufficient support and appropriate approvals were received and documented; or prevent improper payments and inaccurate transaction coding and reporting. Specifically:

- In July 2012, an OPS employee who was the Acting Program Administrator initiated a contract with a private vendor to change her employment status from OPS to contracted staff. OPS employees do not receive paid benefits, however, contractual services employment contracts may include benefits. Although the Acting Program Administrator's hourly rate of pay remained the same, the employment contract required the Department to pay an additional \$18.10 per hour administrative fee for benefits and contract administration. As a result, from the effective date of the contract until the Administrator terminated from the Program in December 2012, the Department paid \$15,874 for benefits and contract administration that would not have been paid had the Administrator remained in an OPS position. Department documentation did not provide an explanation or justification for the additional costs incurred or for approving the change in the Acting Program Administrator's employment classification. While the contract was subsequently approved by Department management, the Department should ensure that employee duties are appropriately separated to prevent conflicts of interest, such as those that occur when employees have the ability to initiate Department contracts that provide a personal benefit.
- For 4 grant payments totaling \$495,000, deliverables were not documented as timely received by the Department in accordance with the grant terms and conditions prior to payment. The number of days the deliverables were late ranged from 11 to 124.
- State law¹⁸ requires that a submitted invoice be recorded and approved for payment no later than 20 days after receipt of the invoice and receipt, inspection, and approval of the goods and services. Payments made after 40 days are to be subject to interest penalties. We noted one Department payment for \$574,684 that was made to the administrative services provider 51 days late and, as a result, the Department paid interest penalties totaling \$1,641. However, the Department did not calculate the interest penalties amount and instead relied on the vendor's calculation. As a result, the Department overpaid the interest penalty by \$298.
- Department policies and procedures provide that Program staff have responsibility for ensuring that transactions are coded appropriately and that staff within the Bureau of Finance and Accounting are to verify coding accuracy before submitting transactions for payment. Notwithstanding these policies and procedures, our tests disclosed the following transaction coding errors:
 - Contracted staff salaries and benefits totaling \$40,855 were incorrectly coded in FLAIR as State employee salaries and benefits.
 - Of the 56 travel payments tested, 20 payments totaling \$1,899 were incorrectly coded in FLAIR as out-of-State travel and 4 payments totaling \$1,978 were incorrectly coded in FLAIR as in-State travel.
 - Three grant payments, totaling \$130,500, were not correctly designated in FLAIR as State financial assistance. Conversely, we found that another grant payment for \$53,392 was incorrectly coded as State financial assistance in FLAIR.
 - Four payments totaling \$10,305 made to the administrative services provider were coded in FLAIR to the incorrect fund and category and one payment totaling \$1,800 was coded in FLAIR to the incorrect category.
- The Florida Accountability Contract Tracking System (FACTS) is an online tool created by the Department of Financial Services to provide users and the public with access to State contract and grant financial information. State agencies are responsible for entering contract and grant information into FACTS. For 6 of the 40 grant payments tested, we found that Program staff had incorrectly reported the associated grant information, such as budgetary amounts and applicable OCA and category codes, in FACTS.

Effective controls over Program expenditures increase the Department's assurance that payments are appropriate, adequately supported, and serve an authorized purpose of the Program. In addition, proper expenditure and grant coding within FLAIR and FACTS strengthens accountability and assists in the planning and budgeting of Program resources.

¹⁸ Section 215.422, Florida Statutes.

We recommend that Department management:

- Ensure that staff duties are properly separated and that an explanation or justification is documented when electing to contract for employment services.
 - Enhance the invoice review process to ensure that, prior to payment, amounts are accurate and adequately supported.
 - Enhance Department procedures to better ensure the accurate coding of FLAIR transactions and accurate reporting of FACTS information.
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OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2013 to June 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the Department's administration of the Florida Biomedical Research Program (Program). The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered

in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, regulations, and Department policies and procedures, and interviewed Department personnel to gain an understanding of the Program's operations.
- Obtained an understanding of internal controls and evaluated the effectiveness of key Program processes, policies, and procedures, including those related to Program employment and staffing.
- Reviewed the Department's Program administrative services provider contract and related amendment to determine whether the contract was executed and amended in accordance with governing laws, rules, and Department policies and procedures and whether the contract included adequate provisions for efficient and effective Department oversight.
- Examined documentation for all 39 payments, totaling \$3,341,824, made to the Program's contracted administrative services provider during the period July 2011 through December 2012 to determine whether the payments were properly authorized, supported, reviewed, recorded in Department accounting records, made only after receipt of applicable contract deliverables, and made in accordance with applicable laws, contract provisions, and other guidelines. Also, analyzed payments made to the administrative services provider during the months of January 2013 and February 2013 to identify any unusual transactions that may have required further investigation or testing.
- Reviewed the Department's contract for the Florida Center for Research to Eradicate Disease (FL CURED) to determine whether the contract was executed and amended in accordance with governing laws, rules, and policies and procedures and whether the contract included adequate provisions for efficient and effective Department oversight.
- Reviewed Department records and contract monitoring and payment processing policies and procedures to evaluate the efficiency and effectiveness of Department processes, and to determine whether the Department had adequately designed and implemented controls for the FL CURED contract.
- Examined documentation for all 5 payments, totaling \$632,500, related to the FL CURED contract made during the period July 2011 through December 2012 to determine whether the expenditures were properly authorized, supported, reviewed, properly recorded in Department accounting records, paid only after receipt of contract deliverables, and made in accordance with applicable laws, rules, contract and grant provisions, and other guidelines.
- Examined 12 grant agreements and 3 related amendments, with awards totaling \$5,316,512, executed during the period July 2011 through December 2012, to determine whether the grants were awarded, amended, and monitored in accordance with governing laws, policies, contract provisions, and other guidelines and whether the grant agreements included adequate provisions for efficient and effective Department oversight.
- Examined documentation for 40 grant payments, totaling \$2,236,204, made during the period July 2011 through December 2012, to determine whether the payments were properly authorized, supported, reviewed, recorded in Department accounting records, made only after receipt of applicable grant deliverables, and made in accordance with applicable laws, contract and grant provisions, and other guidelines. Also, analyzed grant payments made during the months of January 2013 and February 2013 to identify any unusual transactions that may have required further investigation or testing.

- Examined documentation for 120 administrative expenditures, totaling \$89,531, made during the period July 2011 through December 2012 to determine whether the expenditures were properly authorized, supported, reviewed, and recorded in Department accounting records and whether the expenditures were made in accordance with applicable laws, rules, and Department policies and procedures. Also, analyzed administrative expenditures recorded during the months of January 2013 and February 2013 to identify any unusual transactions that may have required further investigation or testing.
- Performed inquiries, observations, inspections of documents and records, and analytical procedures related to the Program's budgets and administrative expenditure limits for the period July 2011 through December 2012 to determine whether Department controls were in place and operating effectively for the proper allocation of Program funds, appropriate investment of excess funds, and accurate recording of investments and interest earnings.
- Performed inquiries, observations, inspections of documents and records relating to Program moneys appropriated and directed to specific entities by the Legislature to determine whether the Department had provided adequate oversight of the Program moneys.
- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing Department operations.
- Observed, documented, and evaluated the effectiveness of selected processes and procedures for the management of Department tangible personal property with acquisition costs totaling \$88.6 million as of December 31, 2012.
- Observed, documented, and evaluated the effectiveness of selected processes and procedures for the assignment and use of motor vehicles with acquisition costs totaling \$10.2 million as of December 31, 2012. Tested 20 expenditures totaling \$626,455.45 for the acquisition of motor vehicles to determine whether the acquisitions complied with State laws, were appropriately documented, and served an authorized purpose.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. 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'S RESPONSE

In a response letter dated October 11, 2013, the State Surgeon General concurred with our audit findings and recommendations. The State Surgeon General's response is included as **EXHIBIT A**.

EXHIBIT A
MANAGEMENT'S RESPONSE

Mission:

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



Vision: To be the Healthiest State in the Nation

Rick Scott
Governor

John H. Armstrong, MD, FACS
State Surgeon General & Secretary

October 11, 2013

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

Dear Mr. Martin:

We are pleased to respond to the preliminary and tentative audit findings and recommendations concerning the Auditor General's *Department of Health, Biomedical Research Program*. Our response to the findings is enclosed as required by section 11.45(4)(d), *Florida Statutes*.

We appreciate the effort of you and your staff in assisting to improve our operations. If you have any questions, please contact our Director of Auditing, Michael J. Bennett by calling (850) 245-4444 extension 2150.

Sincerely,

John H. Armstrong, MD, FACS
Surgeon General & Secretary

JHA/kir
Enclosure

cc: James D. Boyd, C.P.A., M.B.A.
Inspector General
Michael J. Bennett, C.I.A.
Director of Auditing

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Office of the State Surgeon General
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**EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE**



Number	Finding	Recommendation	Management Response	Corrective Action Plan
1	The Program experienced significant staff turnover and the Department of Health (Department) had not established sufficient written policies and procedures to provide for the continuity of efficient and effective Program operations when Program staff have limited Program knowledge and experience.	We recommend that Department management continue to evaluate the appropriate level and types of Program staffing needed to best ensure the efficient and effective administration of the Program. Additionally, we recommend that the Department enhance its written policies and procedures to provide Program staff with the information, instructions, and guidelines necessary to ensure compliance with applicable laws and rules and promote efficient and effective Program administration.	We concur. The Department agrees with the finding and the Unit is newly staffed. Unit personnel have the appropriate qualifications and expertise to manage grants and contracts and ensure efficient and effective program operations, and address all deficiencies identified in this report.	A Unit Manager was hired to oversee all aspects of the Public Health Research Unit, which includes the James and Esler King and Bankhead Coley Biomedical Research Programs, the Cancer Centers of Excellence and the general oversight of any contracts concerned with direct appropriations and administrative service providers. The Unit Manager and the department leaders evaluated the staffing level for the Unit to three Full-Time Equivalent (FTEs), employees and one Other Personal Services (OPS) employee with additional oversight from the Division's Budget Manager on cross-training. Unit procedures will be developed concerning contract management in coordination with the Division of Administration to ensure adherence to Department policies. 1. Provide training to Unit Staff regarding the unit procedures and Department policies 2. Revise the grant manual for researchers. Anticipated completion date: December 31, 2013.
2	Program staff did not document the reasonableness of the administrative services provider's contract amount, nor did Program staff adequately monitor the administrative services provider's activities. Additionally, contrary to State law and Department policies and procedures, Department management did not ensure that the individuals assigned as contract managers for the administrative service provider's contract were Department employees, were supervised by a Department employee, and had attended statutorily required training.	We recommend that Department management: <ul style="list-style-type: none"> • Ensure that contract pricing decisions are appropriately documented and, when significant changes to Program appropriations and activities occur, that contract amounts are timely and appropriately amended. • Ensure that the administrative services provider's performance is timely monitored and that the monitoring efforts and results are appropriately documented. • Require that the administrative services provider obtain and submit to the Department independent service auditor's reports that address the provider's controls relevant to the Program. The Department should review the reports upon receipt and take timely follow-up actions for any noted deficiencies. • Ensure that, as required by State law and Department policies and procedures, a Department employee who is supervised by a Department employee and has received the required training is assigned as the contract manager for the administrative services provider contract. 	We concur. Changes to the Administrative Service Provider (ASP) contract will be made to improve greater accountability for the administrative services funds.	The ASP contract expired September 30, 2013. The Department plans to limit the new contract to peer-review services. An Invitation to Negotiate (ITN) for biomedical research peer review services is to be advertised (beginning in October 2013) and documented in accordance with standard Department procurement procedures. Anticipated completion date: July 1, 2014.

**EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE**



Number	Finding	Recommendation	Management Response	Corrective Action Plan
3	<p>Program staff did not monitor Program grant recipients. Also, the Department did not always ensure that Program grant agreements were properly executed, reviewed, or contained all the provisions required by State law and Department policies and procedures. In addition, the Department paid amounts to certain recipients that exceeded the amounts expended by the recipients.</p>	<p>We recommend that Department management provide the appropriate oversight of Program activities, including grant management and monitoring, to ensure Program compliance with the requirements of Department policies and procedures and State law.</p>	<p>We concur. New processes were implemented to obtain greater accountability and oversight of grant payments and reconciliations with providers.</p>	<p>The program developed a plan to monitor all grant contracts beginning July 1, 2013 and will include all grants executed thereafter. Anticipated completion date: June 30, 2014.</p>
4	<p>Department policies and procedures did not ensure the appropriate identification and coding of Program administrative expenditures. Additionally, the Department did not adequately support its allocation of Program administrative expenditures or demonstrate that administrative expenditures did not exceed statutory limits.</p>	<p>We recommend that Department management establish unique accounting codes for the James and Esther King Biomedical Research Program and the Bankhead-Coley Cancer Research Program to differentiate between payments for administrative costs and direct grant payments when appropriations carried forward from prior fiscal years are used. We also recommend that the Department analyze work activity and other relevant factors to establish and document the basis for allocating administrative costs to two research programs.</p>	<p>We concur.</p>	<p>Completed. The Department established unique accounting codes to differentiate administrative and programmatic costs effective July 1, 2013. The new codes differentiate the Lawton Chiles Endowment funds, the Bankhead-Coley Cancer Research Program funds and the James and Esther King Biomedical Research Program funds. A detailed reconciliation of all grants was completed on September 23, 2013.</p>
5	<p>Department controls did not always prevent improper Program expenditures or ensure the accurate recording and reporting of Program expenditures and grant information.</p>	<p>We recommend that Department management:</p> <ul style="list-style-type: none"> • Ensure that staff duties are properly separated and that an explanation or justification is documented when delegating to contract for employment services. • Enhance the invoice review process to ensure that, prior to payment, amounts are accurate and adequately supported. • Enhance Department procedures to better ensure the accurate coding of Florida Accounting Information Resource Subsystem (FLAIR) transactions and accurate reporting of The Florida Accountability Contract Tracking System (FACTS) information. 	<p>We concur.</p>	<p>Completed. All position descriptions have been reviewed to assure that staff duties are properly separated. The Unit procedures now follow the Division procedures for processing invoices and securing data integrity in FLAIR and FACTS.</p>