



FLORIDA DEPARTMENT of

# management SERVICES

We serve those who serve Florida

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Rick Scott, Governor


Craig J. Nichols, Agency Secretary

## MEMORANDUM

**DATE:** February 17, 2014

**TO:** Craig Nichols, Secretary  
Joint Legislative Auditing Committee  
David Martin, Auditor General

**CC:** Yolanda Lockett, Audit Director

**FROM:**  Walter Sachs, Inspector General

**SUBJECT:** Six-Month Follow-up to Auditor General Report No. 2014-005

In accordance with section 20.055, Florida Statutes, the following is our report of the six-month status of findings and recommendations included in the Auditor General published Report No. 2014-005, *Primary Data Centers Cost Allocation Processes (Operational Audit)*. This report addresses the findings and recommendations for the Northwood Shared Resource Center (NSRC) and Southwood Shared Resource Center (SSRC), which are administratively a part of the Department of Management Services, in the same order as they appear in the report.

The Auditor General's office is currently performing this audit for the 2013-2014 fiscal year and is also following up on these findings as a part of that audit.

**Attachment**



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Rick Scott, Governor

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## MEMORANDUM

**DATE:** February 17, 2014  
**TO:** Curtis Unruh, NSRC Executive Director  
**FROM:**  Walter Sachs, Inspector General  
**SUBJECT:** Six-Month Follow-up to Auditor General Report No. 2014-005

In accordance with section 20.055, Florida Statutes, the following is our explanation of the six-month status of findings and recommendations included in the Auditor General published Report No. 2014-005, *Primary Data Centers Cost Allocation Processes (Operational Audit)*. Our response addresses the findings and recommendations in the same order as they appear in the report.

### Six-Month Status Report

#### NSRC

#### Finding No. 1: Cost of Services Documentation

To fully recover the costs of NSRC services, the NSRC established billing rates for each service provided to customers. The billing rates were calculated based on the estimated cost and utilization of the various NSRC services. Our audit disclosed that, for the 2012-13 fiscal year billing rates, the NSRC could not, upon audit request, provide documentation supporting the estimated costs or the allocation of those costs used in the calculation of the final billing rates. In response to our audit inquiry, NSRC management indicated that, inadvertently, the worksheet containing the estimated costs used to calculate the final billing rates was not saved. NSRC management provided documentation supporting estimated costs totaling \$19,273,274 used in a preliminary calculation of the billing rates. However, the NSRC had subsequently identified additional costs totaling \$491,408 and those costs, along with the costs from the preliminary calculation, were allocated and used in the calculation of the final billing rates.

State law<sup>1</sup> requires the NSRC Board to ensure the sufficiency and transparency of the PDC's financial information. Additionally, as PDC activities are supported in part by Federal funds, Federal guidelines<sup>2</sup> require that all costs and data used to distribute costs be supported by formal accounting and other records that support the propriety of the costs assigned to Federal awards. Absent documentation of the estimated costs and the allocation used to calculate the final billing rates applied to customers, the NSRC could not demonstrate that the established rates were appropriate, equitable, and supported in accordance with the requirements of State law and Federal guidelines.

**Recommendation:**

To demonstrate compliance with State law and Federal guidelines and the appropriateness and equity of customer billings, we recommend that the NSRC maintain documentation to support the estimated costs and the allocation used to calculate the billing rates applied to customers.

**Response:**

The NSRC concurs with this recommendation

**Current Status of Recommendation**

The issues with not saving the Cost Allocation file with the Spending Plan to support the creation of the projected rates have been corrected. For example, the Spending Plan and Cost Allocation file that were used to create the July, 2013 Billing Rates were sent to the Auditor General Staff on February 6, 2014 as a part of their follow up during the current audit.

<sup>1</sup> Section 282.203(3)(e), Florida Statutes.

<sup>2</sup> OMB Circular A-87, Attachment C, State/Local Wide Central Service Cost Allocation Plans.

#### **Finding No. 5: Policies and Procedures**

As discussed in the **BACKGROUND** section of this report, State law<sup>3</sup> requires that the NSRC and SSRC Boards establish procedures to ensure that budgeting and accounting procedures, cost-recovery methodologies, and operating procedures comply with applicable laws, rules, and Federal guidelines. Additionally, State law<sup>4</sup> requires that the Boards ensure the sufficiency and transparency of PDC financial information by, among other things, establishing policies that ensure that cost-recovery methodologies, billings, receivables, expenditure, budgeting, and accounting data are captured and reported timely, consistently, accurately, and transparently. Our audit disclosed that, contrary to State law, the NSRC and the SSRC had not established policies and procedures for ensuring that cost-recovery methodologies comply with applicable laws, rules, and Federal guidelines. In response to our audit inquiry, NSRC and SSRC management indicated that policies and procedures had not been drafted or established due to workload priorities. Similar findings were noted in our report No. 2012-189, finding No. 10, and our report No. 2011-082, finding No. 4. Absent written policies and procedures, the risk is increased that PDC cost-recovery, billing, and accounts receivable functions may not be performed in accordance with the requirements of State law and Federal guidelines.

#### **Recommendation:**

We again recommend that the NSRC establish written policies and procedures. Such policies and procedures should ensure that cost-recovery methodologies are developed in compliance with applicable laws, rules, and Federal guidelines and adequately documented.

#### **Response:**

The NSRC concurs with this recommendation.


#### **Current Status of Recommendation**

The NSRC has created FIN-10, Financial Management Billing Procedure that was approved on July 23, 2013. We are currently enhancing that procedure to include more details about the monthly billing process. FIN-09, Financial Management Cost Allocation Procedure, has been developed and will be presented to the NSRC Finance Committee on February 14, 2014 for review.

<sup>3</sup> Section 282.203(3)(b), Florida Statutes

<sup>4</sup> Section 282.203(3)(e)(1), Florida Statutes

**MEMORANDUM**

**DATE:** February 17, 2014  
**TO:** Tony Powell, SSRC Executive Director  
**FROM:**  Walter Sachs, Inspector General  
**SUBJECT:** Six-Month Follow-up to Auditor General Report No. 2014-005

In accordance with section 20.055, Florida Statutes, the following is our explanation of the six-month status of findings and recommendations included in the Auditor General published Report No. 2014-005, *Primary Data Centers Cost Allocation Processes (Operational Audit)*. Our response addresses the findings and recommendations in the same order as they appear in the report.

**Six-Month Status Report**

**SSRC**

**Finding No. 2: SSRC Cost Allocation Methodology**

To fully recover the costs of SSRC services, the SSRC established billing rates for each service provided to customers. The SSRC billing rates were historically calculated based on the estimated costs and estimated customer utilization of the various SSRC services. However, after the start of the 2012-13 fiscal year, SSRC staff developed a new cost allocation methodology which charged customers based on estimated costs and actual utilization, rather than estimated utilization. The change in methodology was made retroactive to July 2012 and, on March 8, 2013, the SSRC sent invoices to customers that reflected the change in the billing rates charged for services for the period July 2012 through December 2012 based on the new methodology.

State law<sup>1</sup> requires each PDC Board to provide a plan for consideration by the Legislative Budget Commission (LBC) if, after the start of a fiscal year, a billing rate schedule is used that increases any agency's costs for that fiscal year. In response to our audit inquiry, SSRC management

<sup>1</sup> Section 282.203(3)(e)8., Florida Statutes

indicated on April 5, 2013, that meetings were held with Executive Office of the Governor, Office of Policy and Budget staff; House of Representatives and Senate staff; and each SSRC Board member before the SSRC implemented the new cost allocation methodology. While SSRC management indicated that these meetings met the statutory requirement and that the Board was in favor of the new cost allocation methodology, evidence that a plan had been submitted to the LBC could not be provided. Subsequent to our audit inquiry, the SSRC submitted a plan to the LBC on April 11, 2013, indicating that the change in methodology increased the costs for some State entities to amounts exceeding their respective data processing appropriations.

**EXHIBIT B** of this report shows a comparison of the original SSRC customer service costs under the prior cost allocation methodology, projected to the entire 2012-13 fiscal year, to the revised SSRC customer service costs projected to the entire fiscal year. The Exhibit also identifies those State entity customers for whom billed amounts, based on projections, will exceed the applicable appropriated data processing amounts. As reflected in **EXHIBIT B**, after the change in methodology, the costs for 14 State entities could exceed the amounts appropriated to cover SSRC costs by a total of \$2.5 million for the 2012-13 fiscal year. The SSRC's retroactive application of adjustments to its cost allocation methodology could result in customers having insufficient time to make the necessary budgetary adjustments to pay for the increased SSRC service costs.

**Recommendation:**

We recommend that the SSRC Board comply with the requirements of State law and promptly provide a plan to the LBC for consideration when State agency customer costs will be increased by proposed billing rate changes.

**Response:**

The SSRC concurs and notes that the agency has had numerous discussions with the Executive Office of the Governor, House and Senate legislative staff with regard to the provision of statutes this finding speaks to. To this date, there isn't a consistent interpretation of the statutes as to when a primary data center has to submit a plan for LBC consideration.

**Current Status of Recommendation**

The SSRC is working with the legislature on SB 7024 which recommends repealing 282.203, Florida Statutes. The bill would eliminate the requirement that the SSRC provide a plan to the LBC for consideration when State agency customer costs will be increased by proposed billing rate changes. The anticipated completion date is July 2014.

#### **Finding No. 4: Documentation and Allocation of Personnel Costs**

Federal guidelines<sup>2</sup> provide that, where employees work on multiple activities or cost objectives, a distribution of their salaries, including benefits, is to be supported by personnel activity reports, or equivalent documentation, prepared at least monthly, and signed by the employee. Federal guidelines<sup>3</sup> also provide that, when an employee retires or terminates employment, payments for unused leave are allowable in the year of payment provided they are allocated as a general administrative cost to all activities of the governmental unit or component.

As part of our audit, we reviewed PDC documentation supporting the 2011-12 fiscal year total actual costs, including personnel costs, used in the reconciliation to amounts billed and in the calculation of customer account adjustments. We found that SSRC personnel costs included in the 2011-12 fiscal year total actual costs were not always based on actual activity or appropriately allocated. Specifically:

- As similarly noted in our report No. 2012-189, finding No. 8, the SSRC did not maintain personnel activity reports reflecting the actual activity of its employees for the 2011-12 fiscal year. Instead, a contractor prepared staff effort analyses which were used in calculating the customer account adjustments based on the SSRC's total actual costs for the 2011-12 fiscal year. The contractor based the staff effort analyses on estimates of staff effort obtained through interviews with SSRC management. Salaries and benefits included in the SSRC's 2011-12 fiscal year total actual costs totaled \$6,873,327, and represented 39 percent of the total costs allocated.
- Our analysis of the SSRC's 2011-12 fiscal year reconciliation identified unused leave payments totaling \$36,338 that were not allocated as a general administrative cost to all activities. In response to our audit inquiry, SSRC management stated that the contractor who assisted with the reconciliation did not separately identify the unused leave payments and SSRC management did not detect the error.

As a result of not distributing employee salaries, including benefits, based on reports of actual activity, the SSRC could not demonstrate that costs related to salaries and benefits had been appropriately and equitably allocated and that customer accounts had been properly adjusted.

<sup>2</sup> OMB Circular A-87, Attachment B, Section 8.h.

<sup>3</sup> OMB Circular A-87, Attachment B, Section 8.d.(3)

Further, while the effect on the customer account adjustments was not significant for the 2011-12 fiscal year, the SSRC's use of an allocation methodology that does not conform to the requirements of OMB Circular A-87 could result in significant differences in future periods.

**Recommendation:**

1. To demonstrate the appropriateness of amounts billed to customers, we recommend that the SSRC allocate unused leave payments as a general administrative cost to all activities.
2. Additionally, we recommend that the SSRC utilize personnel activity reports or equivalent documentation that reflects actual employee activity to support the allocations of salaries and benefits used in the calculations of customer account adjustments based on the total actual costs.

**Response:**

Recommendation 1. The SSRC concurs.

Recommendation 2. The SSRC will continue to explore opportunities to capture employee activity reports.

**Current Status of Recommendation**

<p>The SSRC is currently working with DMS to create charge object codes in People First to capture employee work activity. The anticipated completion date is February 28, 2014.</p>
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#### **Finding No. 5: Policies and Procedures**

As discussed in the **BACKGROUND** section of this report, State law<sup>4</sup> requires that the NSRC and SSRC Boards establish procedures to ensure that budgeting and accounting procedures, cost-recovery methodologies, and operating procedures comply with applicable laws, rules, and Federal guidelines. Additionally, State law<sup>5</sup> requires that the Boards ensure the sufficiency and transparency of PDC financial information by, among other things, establishing policies that ensure that cost-recovery methodologies, billings, receivables, expenditure, budgeting, and accounting data are captured and reported timely, consistently, accurately, and transparently. Our audit disclosed that, contrary to State law, the NSRC and the SSRC had not established policies and procedures for ensuring that cost-recovery methodologies comply with applicable laws, rules, and Federal guidelines. In response to our audit inquiry, NSRC and SSRC management indicated that policies and procedures had not been drafted or established due to workload priorities. Similar findings were noted in our report No. 2012-189, finding No. 10, and our report No. 2011-082, finding No. 4. Absent written policies and procedures, the risk is increased that PDC cost-recovery, billing, and accounts receivable functions may not be performed in accordance with the requirements of State law and Federal guidelines.

#### **Recommendation:**

We again recommend that the SSRC establish written policies and procedures. Such policies and procedures should ensure that cost-recovery methodologies are developed in compliance with applicable laws, rules, and Federal guidelines and adequately documented.

#### **Response:**

The SSRC concurs with the recommendation. The SSRC previously used informal written procedures for the cost-recovery methodology. As a result of the audit recommendation, the SSRC on (June 21, 2013) has formalized these written procedures into an agency directive.

#### **Current Status of Recommendation**

The recommendation has been completed. As of June 21, 2013 the SSRC has formalized the procedures for the cost recovery methodology.

<sup>4</sup> Section 282.203(3)(b), Florida Statutes.

<sup>5</sup> Section 282.203(3)(e)(1), Florida Statutes.