

JEFF ATWATER
President



THE FLORIDA LEGISLATURE
JOINT LEGISLATIVE AUDITING COMMITTEE

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Representative Betty Reed
Representative Dwayne L. Taylor
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The Florida Legislature
Joint Legislative Auditing Committee

Senator Alex Diaz de la Portilla, Chair
Representative Greg Evers, Vice Chair

Meeting Packet
Monday, November 2, 2009
4:00 P.M. to 6:00 P.M.
309 Capitol

AGENDA
JOINT LEGISLATIVE AUDITING COMMITTEE

DATE: Monday, November 2, 2009

TIME: 4:00 p.m. to 6:00 p.m.

PLACE: Room 309, The Capitol

MEMBERS: Senator Alex Diaz de la Portilla, Chair
Representative Greg Evers, Alternating Chair

Senator Andy Gardiner
Senator Charlie Justice
Senator Jeremy Ring
Senator Stephen R. Wise

Representative Betty Reed
Representative Dwayne L. Taylor
Representative John Tobia
Representative Charles E. Van Zant

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1. Organization of Committee
 - 1-A Election of Chair
 - 1-B Election of Alternating Chair
 - 1-C Adoption of Rules
 2. Presentation and discussion of Auditor General Report, 2010-012,
Division of Emergency Management - Delays in Settling Disaster Claims
- Operational Audit
 3. Update from the State Board of Administration on the Local
Government Investment Pool
 4. Other Committee Business

Agenda Item 1A & 1B

Joint Legislative Auditing Committee Election of Chair and Alternating Chair

Pursuant to s. 11.40(1), *Florida Statutes*, the members of the Joint Legislative Auditing Committee elect a Chair and Vice Chair. The Chair and Vice-Chair serve a one-year term starting in November. They alternate positions the following November.

S. 11.40, F.S., Legislative Auditing Committee.--

(1) There is created a standing joint committee of the Legislature designated the Legislative Auditing Committee, composed of 10 members as follows: 5 members of the Senate, to be appointed by the President of the Senate, and 5 members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The terms of members shall be for 2 years and shall run from the organization of one Legislature to the organization of the next Legislature. Vacancies occurring during the interim period shall be filled in the same manner as the original appointment. The members of the committee shall elect a chair and vice chair. During the 2-year term, a member of each house shall serve as chair for 1 year.

Agenda Item 1C

Joint Legislative Auditing Committee Adoption of Rules

Pursuant to s. 11.40(2), *Florida Statutes*, the Committee is governed by the joint rules of the Senate and the House of Representatives.

S. 11.40, F.S., Legislative Auditing Committee.--

(2) The committee shall be governed by joint rules of the Senate and House of Representatives which shall remain in effect until repealed or amended by concurrent resolution.

During the Committee meeting in which the Chairman and Vice Chairman are elected, the Committee adopts the rules of the presiding Chairman's chamber. These rules are used for the general operation of the Committee.

Agenda Item 2

DIVISION OF EMERGENCY MANAGEMENT

DELAYS IN SETTLING DISASTER CLAIMS

**REPORT NO. 2010-012
SEPTEMBER 2009**

Florida Auditor General

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This operational audit of DEM focused on obtaining an understanding of the causes for the delays in settling (completion of final inspections on completed projects) large project disaster claims for project activity during the period July 2007 through February 2009.

Florida Auditor General

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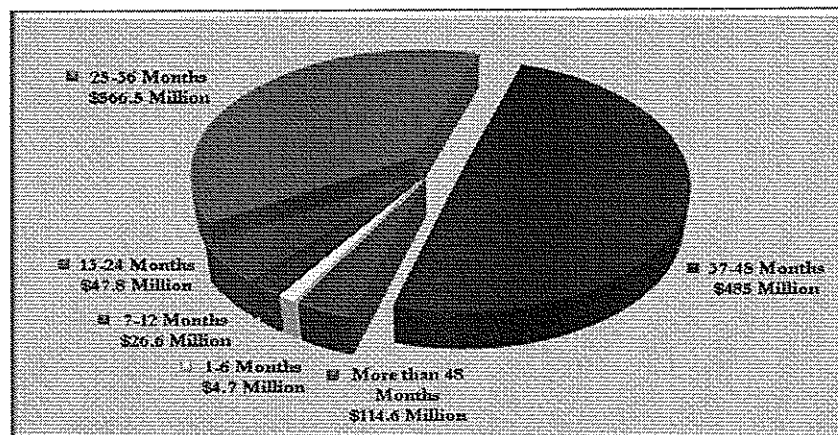
Seven Findings And Recommendations

- **FRAMEWORK FOR PROGRAM ADMINISTRATION (FINDING 1)**
- **COMPLETENESS AND ACCURACY OF DATA SYSTEMS (FINDINGS 2 AND 3)**
- **MONITORING OF OPEN PROJECTS (FINDINGS 4 AND 5)**
- **FINAL INSPECTIONS AND PROJECT CLOSEOUTS (FINDINGS 6 AND 7)**

Background

- Our analysis of 2,676 completed projects showed that, on average, most of the time these projects had been open related to periods occurring after the work was complete.
 - Emergency projects – 89 percent
 - Permanent projects – 64 percent
- Our analysis of 2,870 open projects showed that, on average, the projects had been open 3 years, with some open as many as 10 years.

PA Program Large Permanent Projects (2004 Forward) Number of Months Open as of February 28, 2009



Florida Auditor General

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Framework for Program Administration

- ***Finding No. 1:*** DEM organizational structure and procedures were not effectively designed to ensure that disaster projects were appropriately monitored and closed in a timely manner.
 - Program operates in a challenging environment
 - Organizational Structure
 - Policies and Procedures
 - Evaluation of Program Accomplishments

Florida Auditor General

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Framework for Program Administration

- Recommendations:
 - Evaluate the organizational structure
 - Enhance written policies and procedures
 - Establish a formal training program
 - Establish and monitor goals that allow for the evaluation of Program and staff accomplishments

Framework for Program Administration

- DEM Corrective Action:
 - The Public Assistance Standard Operating Guide will be rewritten by June 2010 to ensure that projects are appropriately monitored and closed.

COMPLETENESS AND ACCURACY OF DATA SYSTEMS

- ***Finding No. 2:*** DEM maintained disaster project documentation in multiple systems and at various storage sites rather than in a centralized information system.
 - Data related to pre-2004 disasters was maintained in 4 systems and storage sites
 - Data related to 2004 and subsequent disasters was maintained in 8 systems and storage sites
 - No reconciliations were performed

COMPLETENESS AND ACCURACY OF DATA SYSTEMS

- **Recommendations:**
 - Develop policies and procedures establishing a centralized system
 - Identify where key dates should be recorded
 - Identify where key documentation should be stored
 - Conduct periodic reviews of the data
 - Should include reconciliations to other systems, including FLAIR

COMPLETENESS AND ACCURACY OF DATA SYSTEMS

- DEM Corrective Action
 - Changes have been requested from the software developer to provide a central information and storage system by June 2010.

COMPLETENESS AND ACCURACY OF DATA SYSTEMS

- ***Finding No. 3:*** The FloridaPA System contained inaccurate and incomplete data, limiting DEM management's ability to effectively manage disaster projects.
 - Limited data available for disaster occurring prior to 2004
 - Errors in 88 percent of the dates reviewed for 2004 and subsequent storms
 - Projects can not be closed within FloridaPA

COMPLETENESS AND ACCURACY OF DATA SYSTEMS

- Recommendations:
 - Compile and maintain centralized current data on open projects related to pre-2004 disasters
 - Enhance the functionality of the FloridaPA System to allow for the recording of relevant, complete, and accurate project data, and the closing of completed projects
 - Develop FloridaPA System reports that are useful for PA Program management

COMPLETENESS AND ACCURACY OF DATA SYSTEMS

- DEM Corrective Action
 - The FloridaPA.org system will be reviewed to remove inaccurate and incomplete data by June 2010.

MONITORING OF OPEN PROJECTS

- **Finding No. 4: Review and Follow-Up on Subgrantee Quarterly Reports**
 - Written instructions were not provided to :
 - Subgrantees on report preparation
 - DEM staff on report review and approval
 - Reviews were not effective for identifying and resolving anomalies in data reported
 - Quarterly Reports were required to be submitted only until final inspections were completed
 - Corrections made prior to FEMA submission were not always made in the FloridaPA System

Florida Auditor General

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MONITORING OF OPEN PROJECTS

- **Recommendations:**
 - Require subgrantees to submit Quarterly Reports until the final closeout payment is made
 - Ensure the accuracy of information reported to FEMA
 - Develop written procedures regarding Quarterly Report preparation, review, and approval
 - Ensure timely resolution of identified discrepancies and instances requiring follow-up
 - Update data in the FloridaPA System

Florida Auditor General

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MONITORING OF OPEN PROJECTS

- DEM Corrective Action
 - The Quarterly Report process will be refined and improved to assist subgrantees and DEM staff in identifying and resolving anomalies in data submissions by June 2010.

MONITORING OF OPEN PROJECTS

- ***Finding No. 5: Performance of Interim Inspections***
 - DEM agreements with its subgrantees require interim inspections
 - DEM had not established criteria for determining when interim inspections were necessary
 - DEM was unable to provide a complete listing of interim inspections performed during the audit period
 - Inspection reports reviewed did not always include adequate information to determine the purpose for and the results of the inspections

MONITORING OF OPEN PROJECTS

- **Recommendations:**

- Develop procedures for identifying when interim inspections should be conducted
- Ensure appropriate information is recorded in the FloridaPA System to identify the inspected project, the purpose for and results of the inspection

MONITORING OF OPEN PROJECTS

- **DEM Corrective Action**

- A listing of planned and completed interim inspections will be maintained by the Bureau.
- Staff will be instructed on proper documentation of completed inspections.
- This corrective action will be completed by January 30, 2010.

FINAL INSPECTIONS AND PROJECT CLOSEOUTS

- ***Finding No. 6: Final Inspection Procedures***
 - **Scheduling procedures did not encourage timely project completion.**
 - DEM's policy was to wait for subgrantees to submit requests for final inspections
 - On average, subgrantees requested final inspections from 399 to 555 days after a project was completed
 - **Information already available in the FloridaPA System was required to be repeated on various JCT forms.**

FINAL INSPECTIONS AND PROJECT CLOSEOUTS

- **Recommendations:**
 - Consult with FEMA regarding JCT requirements
 - Ensure new documents developed to close out disasters that occurred subsequent to 2005 do not require duplicative information
 - Develop a process for identifying completed projects and timely scheduling final inspections, rather than waiting for subgrantees to request a final inspection

FINAL INSPECTIONS AND PROJECT CLOSEOUTS

- DEM Corrective Action
 - The JCT process will be replaced and another methodology will be put in place to facilitate project closeouts.
 - The Bureau will schedule final inspections for projects identified as complete.
 - Corrective action will be completed by June 2010.

FINAL INSPECTIONS AND PROJECT CLOSEOUTS

- *Finding No. 7:*
 - **DEM did not always retain the documentation necessary to demonstrate the adequacy of the final inspections.**
 - No description of validation process for 1 of 20 projects
 - One or more JCT forms not included for 9 of 19 projects
 - **Eligible costs calculated during the final inspection process were not reconciled to amounts already paid to subgrantees.**
 - Payments for 5 of 19 projects did not equal the final eligible costs

FINAL INSPECTIONS AND PROJECT CLOSEOUTS

- **Recommendations:**

- **We recommend that DEM ensure:**

- Appropriate documentation is retained in the FloridaPA System
- A reconciliation of total payments to final eligible costs is timely performed and documented and any differences timely resolved
- Final closeout payment requests are received prior to submitting the closeout packages to FEMA

FINAL INSPECTIONS AND PROJECT CLOSEOUTS

- **DEM Corrective Action**

- Documentation will be retained to confirm the adequacy of final inspections.
- Procedures will be revised to ensure the eligible costs calculated during the final inspection process are reconciled to amounts already paid to subgrantees and any payments be submitted prior to closeout.
- Corrective action will be completed by January 30, 2010.

DEM and FEMA

- As noted in this report, the involvement of both DEM and FEMA personnel in many aspects of disaster project administration, from the approval of the planned project to participation in its final inspection resulted in some duplicative efforts.
- DEM, upon the resolution of the internal control findings addressed in this report and in our reports on Federal program administration, should work with FEMA to minimize the duplication of efforts in the completion of open projects and in the administration of future projects.

Contact Information

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Florida Auditor General Web Site:
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DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

October 26, 2009

Mr. Reuben D. Almaguer
Interim Director
Division of Emergency Management
2555 Shumard Oak Boulevard
Tallahassee, Florida 32399-2100

Dear Mr. Almaguer:

As you know, Auditor General audit report No. 2010-012, entitled Division of Emergency Management, Delays in Settling Disaster Claims, was issued on September 9, 2009, following the receipt of the Division's August 31, 2009, official response to the Auditor General's list of preliminary and tentative findings. The report title, background information, and the findings and recommendations included in the final audit report match those delivered to the Division on August 6, 2009. The Division's official response was signed by you as Interim Director and is included verbatim in the final report as Exhibit C, Management's Response. In the official response, the Division concurred with each finding and recommendation and described corrective actions planned or in progress.

We are now in receipt of Interim Deputy Director David Halstead's letter dated October 19, 2009, attached to which is a document described as a supplemental response to Auditor General audit report No. 2010-012. In his letter, Mr. Halstead transmits the Division's request that the Auditor General provide a copy of the supplemental response to all who received a copy of the report. We have reviewed the supplemental response and find that it does not appear to identify any errors in the Division's original response or any errors or omissions in the final report's background, findings, or recommendations. As a consequence, we have concluded that our distribution of the document is unwarranted, and no such distribution will be undertaken.

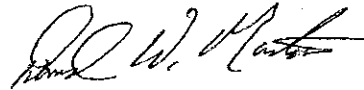
The supplemental response (copy attached) describes in detail the Division's perception of the difficulties associated with the administration of the State's Public Assistance Program and states that the audit fell short in recognizing the related challenges and demands. The audit report does clearly and, in our judgment, sufficiently, recognize the challenging environment in which the Public Assistance Program functions. The final report references

Mr. Reuben D. Almaguer
October 26, 2009
Page 2

the numbers of projects, the transitory nature of funding, the reliance on temporary staff, and the voluminous and complex nature of program requirements and documentation. It is this recognition that lead us to recommend consideration of changes in organizational structure, the establishment and improvement of policies and procedures, improved training, and the maintenance of accurate and complete records.

We regret that the Division has reservations about the final report. Please understand that we greatly appreciate the importance of the work done by the management and staff of the Division of Emergency Management. We are available to discuss this matter further should you so desire.

Sincerely,



David W. Martin

DWM/ks

Attachment(s)

c: The Honorable Alex Diaz de la Portilla, Senator, District 36,
Alternating Chair, Joint Legislative Auditing Committee
The Honorable Greg Evers, Representative, District 1,
Alternating Chair, Joint Legislative Auditing Committee
Ms. Kathy DuBose, Staff Director, Joint Legislative Auditing Committee
Mr. David Halstead, Deputy Director, Division of Emergency Management
Ms. Candie Fuller, Inspector General, Division of Emergency Management



STATE OF FLORIDA
DIVISION OF EMERGENCY MANAGEMENT

CHARLIE CRIST
Governor

RUBEN D. ALMAGUER
Interim Director

October 19, 2009

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

Re: Supplemental Response to Operational Audit No.: 2010-012

Dear Mr. Martin:

Enclosed is a supplemental list of responses prepared by the Division of Emergency Management to the audit findings and recommendations prepared by the Auditor General regarding the operational audit of the Division of Emergency Management, for the period July 2007 through February 2009.

Although prior comments were submitted pursuant to Section 11.45(4) (d), Florida Statutes, the Division submits these supplemental comments and respectfully requests that the Auditor General copy the same parties as was prior copied regarding the Division of Emergency Management's comments noted in the August 31, 2009 response.

If you have any questions or should you require additional information, please contact Doug Wright, Recovery Bureau Chief, at (850) 413-9963 or by e-mail at: doug.wright@em.myflorida.com.

Sincerely

A handwritten signature in black ink, appearing to read "David Halstead", written over a horizontal line.

David Halstead
Interim Deputy Director

cc: Candie Fuller, Inspector General

Supplement Response to Operation Audit Report No.: 2010-012

On February 28, 2009, the last day of the audit period, 2,870 large projects remained open. These projects relate to disasters dating back to 1999, a majority of the projects being open in response to 2004 and 2005 calendar-year disasters. The Auditor General's operational audit of DEM focused on obtaining an understanding of the causes for the delays in settling large project disaster claims for project activity during the period July 2007 through February 2009.

As a follow-up to the Division's initial response to audit findings and recommendations dated September 2009, the Division submits the following supplemental responses:

Finding No. 1: DEM organizational structure and procedures were not effectively designed to ensure that disaster projects were appropriately monitored and closed in a timely manner.

In response, the Division concurs in part with the Auditor General and has already taken steps to ensure increased monitoring activity and to ascertain closure of projects in less time. In that effort, the Division has begun to revise its Public Assistance Standard Operating Guide to ensure greater efficiencies.

If there is any disagreement with the audit findings and recommendations it is this -- the audit fell short of recognizing the challenges and demands it takes to run the state's Public Assistance Program. We believe that the title of the audit report "Delays in Settling Disaster Claims" is misleading, as there is no evidence to suggest that the Division delayed reimbursement to applicants. No where in the audit is there a mention of the following facts and information, which is not only instructive, but was readily available and could have provided greater perspective of our efforts to work numerous open disasters:

- Between 1999 and the beginning of the 2004 hurricane season, the Division was already working 9 disaster declarations. Following the 2004/2005 hurricane season, another 9 federal declared disasters were added to our workload.
- At the time of the audit, 112 (pre 2004) large projects were yet to be closed. Of the 112 large projects, 73 have now been closed, leaving 39 large projects to finalize.

- Overall, the state of Florida has received 30 federal disaster declarations between 1999 to present. Additionally, the state received 7 fire management assistance grants for the same period.
- Since 1999, Division staff has written 49,933 project worksheets. This does not include the 7 fire management assistance grants.
- As of February 28, 2009, the audit states that there were 2,870 large projects in the system. The audit's numbers do not properly reflect the actual number in NEMIS. As of September 11, 2009, there are actually 3,420 large projects and 215 of those are in FEMA review.
- The audit summary states that "the overall average age of these projects was three years, some of these projects had remained open for ten years." It is clear the 10 year reference did not take into account the number of federal declared disasters that have impacted the state and the increased workload as a result during this period. Actual recovery work for the 04/05 disasters did not start until about mid to late 2006 because staff was still in conducting response operations for these disasters. Taking this into consideration, actual recovery work has only been ongoing for approximately 2.5 years, not 3.5 years. We believe that recovery work could have started as early as 2 years had it not been for the unprecedented number of hurricanes in 04/05.
- The audit summary also stated "This operational audit of DEM focused on obtaining an understanding of the causes for the delays in settling large project disaster claims for project activity during the period July 2007 through February 2009." It does not appear that any substantial effort was made to fully understand the causes for the delays in settling (closing) large project disaster claims. Again, the audit failed to recognize the logistical challenges that the 04/05 hurricane season posed and how it compelled recovery staff to deviate from closure of older disasters. The Division also had to deal with other issues which effected recovery work across the board. They included response activities to an assortment of disasters following the 2005 hurricane season, project worksheet development, staff retention issues, lack of SMAC funding, Joint Field Office (JFO) deployments, JFO staffing, hiring freeze, deployment of FEMA staff involved with PW closure, travel restrictions, Emergency Operations Center (EOC) staffing during disasters, deployment of Florida Recovery Office (FRO) during disasters, lack of equipment, insurance issues and appeals.
- The audit failed to report that in the past year the Division has reached 60 percent closure of the 04/05 hurricane season large projects. This statistic alone demonstrates that a determined effort had been made in closing large projects.

- Due to the impact of the 04/05 storms, the insurance industry was over extended beyond its own ability to provide financial Statements of Loss to State Applicants. Many of these statements weren't available until the summer of 2008. Until this data was available and analyzed, the closeout process could not begin for the applicants affected by this type of delay.
- A better understanding of these issues could have been achieved had the Auditor General traveled to the FRO and discussed 04/05 closure activities with the FRO Manager and pertinent staff.
- The Audit Report uses FRO and FLTRO in lieu of a single reference to the Lake Mary Office. A cursory review disclosed there were four references to the FLTRO and five references to the FRO in the audit report. DEM assumes all references relate to the Lake Mary Office.

Finding No. 2: DEM maintained disaster project documentation in multiple systems and at various storage sites rather than in a centralized information system.

In response, the Division concurs in part with the Auditor General. At present, the Division is in the process of developing a central information and storage system. Keep in mind, however, the FloridaPA.org is only 5 years old. It was developed during the 2004 hurricane season after the Division realized its predecessor system (Florida Papers) was incapable of handling the magnitude of Public Assistance claims. While there is a heavy reliance on FloridaPA.org, the Division realizes that the system requires additional upgrades to address storage and centralized information.

Finding No. 3: The FloridaPA System contained inaccurate and incomplete data, limiting DEM management's ability to effectively manage disaster projects.

The Division concurs in part with the Auditor General's finding. However, the audit fails to inform the reader that at the time of the audit FloridaPA.org was undergoing a major upgrade. This lasted throughout the audit period and beyond. Thus, in any technology upgrade, there are going to be instances of inaccurate data and integration of platforms upon which data resides. We believe it's a bit of a stretch to claim that inaccurate and incomplete data limited the Division's ability to effectively manage disaster projects. That said, the Division believes that many of the audits recommendations merit consideration and will be incorporated in additional upgrades to the system.

Finding No. 4: DEM did not provide written instructions to subgrantees on the preparation of Quarterly Reports or to staff on the review and approval of Quarterly

Reports. Additionally, DEM procedures for reviewing and approving Quarterly Reports were not effective in disclosing and resolving anomalies in the data reported.

The Division concurs in part with the audit finding and is currently in the process of refining the Quarterly Report process which will ultimately assist applicants and Division personnel in identifying and resolving anomalies in data submissions.

Finding No. 5: DEM did not maintain a listing of planned or completed interim inspections for disaster projects. Additionally, DEM did not always properly document completed inspections.

The Division concurs in part with the audit finding and will now maintain a list of planned and completed interim inspections. Staff will be instructed on proper documentation of completed inspections. It should be noted, however, that there is no requirement in Code of Federal Regulations that compels a state to conduct interim inspections or how they should be conducted. In addition, a search of the FEMA website disclosed no reference to an interim inspection requirement.

Finding No. 6: Information and calculations required by the Joint Closeout Tool documents were duplicative and resulted in inefficiencies. In addition, DEM's policy of waiting for subgrantees to request final inspections, rather than scheduling the inspections when projects were identified as complete, contributed to extensive delays.

The Division concurs in part with the audit findings and has replaced the Joint Closeout Tool (JCT) with a new methodology (Final Reconciliation Report - FRR) to facilitate project closeouts. However, this information was conveyed to audit staff, but for whatever reason it was omitted in the final audit findings and recommendations.

Finding No. 7: DEM did not always retain the documentation necessary to demonstrate the adequacy of the final inspections. Also, contrary to established procedures, the eligible costs calculated during the final inspection process were not reconciled to amounts already paid to subgrantees.

The Division concurs in part with the audit findings and will revise procedures to ensure that eligible costs calculated during the final inspection process are reconciled to amounts already reimbursed to applicants and any payments be submitted prior to closeout.

In sum, the Division is in the process of writing six different Standard Operating Procedures, which include the following subjects: Quarterly Report Monitoring; Document Storage/Retention; Final Inspection; Project Funding Adjustment; Subgrantee Closure Identification; and Interim Inspection. Creating the above procedures will not preclude delays in settling disaster claims.

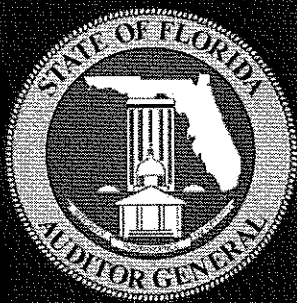
We hope this information is helpful and we thank you for allowing the Division to submit its supplemental response to the Auditor General's Operational Audit No.: 2010-012.

**DIVISION OF EMERGENCY
MANAGEMENT**

DELAYS IN SETTLING DISASTER CLAIMS

Operational Audit

For the Period
July 2007 Through February 2009



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

DIRECTOR OF THE DIVISION OF EMERGENCY MANAGEMENT

The Director of the Division of Emergency Management is appointed by, and serves at the pleasure of, the Governor. W. Craig Fugate served as Director during the audit period and through May 13, 2009. Ruben Almaguer was appointed Interim Director effective May 14, 2009. Pursuant to Section 20.18(2)(a), Florida Statutes, the Division is administratively housed within the Department of Community Affairs.

The audit team leader was Kathy Simmons and the audit was supervised by Lisa Norman, CPA. Please address inquiries regarding this report to David R. Vick, CPA, Audit Manager, by e-mail at davidvick@aud.state.fl.us or by telephone at (850) 487-4494.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DIVISION OF EMERGENCY MANAGEMENT

Delays in Settling Disaster Claims

SUMMARY

According to Division of Emergency Management (DEM) records, at February 28, 2009, DEM had 2,870 open large projects relating to disasters that occurred between 1999 and 2008 with the majority of the projects being related to 2004 and 2005 calendar-year storms. While the overall average age of these projects was three years, some had remained open for ten years. This operational audit of DEM focused on obtaining an understanding of the causes for the delays in settling large project disaster claims for project activity during the period July 2007 through February 2009. Our audit disclosed the following:

FRAMEWORK FOR PROGRAM ADMINISTRATION

Finding No. 1: DEM organizational structure and procedures were not effectively designed to ensure that disaster projects were appropriately monitored and closed in a timely manner.

COMPLETENESS AND ACCURACY OF DATA SYSTEMS

Finding No. 2: DEM maintained disaster project documentation in multiple systems and at various storage sites rather than in a centralized information system.

Finding No. 3: The FloridaPA System contained inaccurate and incomplete data, limiting DEM management's ability to effectively manage disaster projects.

MONITORING OF OPEN PROJECTS

Finding No. 4: DEM did not provide written instructions to subgrantees on the preparation of Quarterly Reports or to staff on the review and approval of Quarterly Reports. Additionally, DEM procedures for reviewing and approving Quarterly Reports were not effective in disclosing and resolving anomalies in the data reported.

Finding No. 5: DEM did not maintain a listing of planned or completed interim inspections for disaster projects. Additionally, DEM did not always properly document completed inspections.

FINAL INSPECTIONS AND PROJECT CLOSEOUTS

Finding No. 6: Information and calculations required by the Joint Closeout Tool documents were duplicative and resulted in inefficiencies. In addition, DEM's policy of waiting for subgrantees to request final inspections, rather than scheduling the inspections when projects were identified as completed, contributed to extensive delays.

Finding No. 7: DEM did not always retain the documentation necessary to demonstrate the adequacy of the final inspections. Also, contrary to established procedures, the eligible costs calculated during the final inspection process were not reconciled to amounts already paid to subgrantees.

BACKGROUND

The Division of Emergency Management (DEM), among other duties, provides disaster assistance to local governments and nonprofit organizations (subgrantees) through the Federally funded Disaster Grants - Public Assistance (Presidentially Declared Disasters) (PA) Program of the Federal Emergency Management Agency (FEMA). DEM's Bureau of Recovery administered the PA Program which assists State agencies and local governments in returning damaged or destroyed public facilities, infrastructure, and services to pre-disaster conditions. Funding for the PA Program is divided into two grant types, large projects and small projects, which are distinguished by a

FEMA-established dollar threshold. The dollar threshold for large projects open during the audit period ranged from \$47,800 to \$64,200.

The amounts awarded for small projects are based on project worksheets that describe the nature of the work to be performed and the estimated cost and generally will not change except in unusual circumstances, such as failure to complete the work, an unexpected insurance recovery, or an obvious error in calculation. For small projects, final payment of the Federal funding is made upon FEMA approval of the project. At closeout of the disaster contract, the State is required to certify that all small projects are properly completed and that the State cost-sharing contribution, as specified in the FEMA-State agreement, was paid.

Large projects are authorized by FEMA based on project worksheets that describe the nature of the work to be performed and the estimated cost. When a large project is approved under the PA Program, FEMA is to obligate the estimated amount that will be needed to complete the project. As the project progresses, the subgrantees are to submit reimbursement requests to DEM, and DEM is to make payments to the subgrantees up to the project's obligated amount. If project costs are higher than anticipated, a subgrantee may request additional funds during the course of the project. If FEMA approves the request, the additional amount shown on the revised project worksheet is to be obligated.

Subgrantees must complete eligible work within the timeframes and deadlines established by Federal regulation according to the category of work. These timeframes begin on the disaster declaration date. DEM has authority to grant limited extensions to the established deadlines. Emergency work and debris removal have 6-month deadlines that can be extended by DEM for an additional 6 months. Permanent work has an 18-month deadline that can be extended by DEM an additional 30 months. Requests for time extensions beyond the limit of DEM's authority must be submitted to FEMA for approval. Additionally, Federal funding for administrative costs, such as the cost to monitor on-going projects and perform final inspections is available to DEM for eight years after the disaster is declared or 180 days after the latest performance period date of a project, whichever is earlier.

The last phase of the large project life cycle is the final inspection and project closeout. Final inspections are required as they provide a basis for DEM to certify to FEMA that reported costs were incurred in the performance of eligible work, the approved work was completed, the project was in compliance with the provisions of the FEMA-State Agreement, and payments for the project had been made in accordance with Federal regulations.

Subgrantees are required to submit a request for final inspection when the work included on the approved project worksheet has been completed. Once a request for final inspection has been submitted, DEM is to schedule and conduct the final inspection. DEM procedures for completing final inspections vary by disaster. For 2004 and 2005 calendar-year disasters, DEM staff in the Florida Recovery Office (FRO) were required to complete a Joint Closeout Tool (JCT) and FEMA staff accompanied DEM staff on the final inspections. Approval of the final inspection and obligation of the closeout version of the project worksheet for these disasters was provided by FEMA staff located in the Florida Long-Term Recovery Office (FLTRO) in Lake Mary, Florida. For all other disasters, DEM conducted the final inspections and submitted the completed inspection and supporting documentation to the FEMA Region IV office in Atlanta, Georgia.

DEM primarily documents its activities, including monitoring visits and final inspections, in the Florida Public Assistance (FloridaPA) System. The FloridaPA System is a Web-based portal used by DEM to manage the PA Program. The FloridaPA System centralizes PA Program information by connecting subgrantees, DEM, and FEMA and is to support the following project management functions related to monitoring and closeout of PA Program projects:

- Project Access - The System provides the user with summary pages displaying the current project status and links to more detailed information and documents such as approved and unapproved project worksheets, detailed payment information (see Advanced Reimbursement Processing below), contact logs, and scanned documents related to initial and final inspections.
- Project Request Management - The System provides for electronic submission of requests for time extensions and final inspections, etc. The System automatically generates a machine date showing the date and time a project request is advanced to the next step in the process.
- Advanced Reimbursement Processing - The System stores approval flow information for each payment from subgrantee submission of the Request for Reimbursement to approval by the Department of Community Affairs Finance and Accounting Office.
- Detailed Financial Reports - The System allows reports to be viewed at the subgrantee or project level.
- Quarterly Report Management - The System provides for electronic submission of Quarterly Reports by subgrantees. In the last month of each quarter, the System generates a new Quarterly Report for each subgrantee by pulling forward the previous quarter's information. The subgrantee is then to use the System-generated form to update and submit the report for approval.

In report No. 2009-144, we reported that because of deficiencies in the internal control of the FloridaPA System,¹ a lack of sufficient documentation supporting the allowability of payments to subgrantees, and the failure to timely complete final inspections on completed projects (delays in settling disaster claims), it was not practicable in the circumstances for us to obtain audit evidence sufficient to the expression of an opinion on DEM's compliance with requirements applicable to the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program (CFDA No. 97.036).

FINDINGS AND RECOMMENDATIONS

In connection with our audit, we compiled selected data provided by DEM related to 2,676 large projects for which FEMA had approved the final inspection and obligated the closeout version of the project worksheet during the period July 1, 2007, through February 28, 2009.² As shown on the timelines in EXHIBIT A, these data indicated that from the date the projects were initially obligated to the date FEMA approved the final inspection, on average, each of the 2,676 projects had been open 1,247 days (approximately 3.5 years). While having a particular project in open status for 3.5 years may not be unreasonable under some circumstances, our analysis, as also shown by EXHIBIT A, disclosed that, on average, most of the time these projects remained open occurred after the work required under the projects had been completed. Specifically, for emergency projects, approximately 89 percent of the time the project was open occurred after the project was completed. For permanent projects, 64 percent of the time the project was open occurred after the project was completed.

Our audit disclosed that DEM's overall organizational structure and operating policies, inaccuracies in its data systems, and deficiencies in DEM subgrantee monitoring and conduct of final inspections contributed to the delays in settling large project disaster claims, as described in the findings that follow below. Extended delays may result in:

¹ In audit report No. 2009-086, we also noted, with respect to the FloridaPA System, that DEM security policies were inadequate; DEM did not have an Information Systems Development Methodology; change management practices, management of access privileges, and certain DEM security controls protecting data and information technology resources needed improvement; DEM did not maintain a complete log of user activity and had not developed nonapplicant user documentation; and DEM did not timely address processing errors. In his response, the DEM Director indicated that some of the report findings were resolved by the new version of the FloridaPA System implemented in 2008.

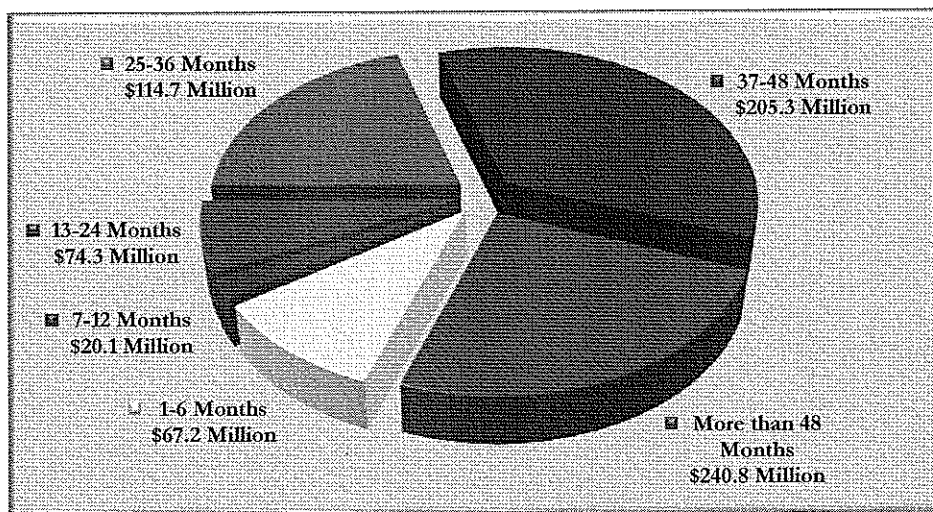
² DEM excluded information on projects related to disasters occurring prior to 2004 as this information was not readily available.

- Loss or destruction of subgrantee records required for final inspections, resulting in an inability to substantiate project charges.
- Loss of disaster-specific knowledge due to turnover of DEM and subgrantee personnel.
- Loss of Federal funding for project and administrative costs.

At February 28, 2009, DEM records indicated that 2,870 large projects remained open. These projects related to disasters that occurred between 1999 and 2008, with the majority of the projects being related to 2004 and 2005 calendar-year storms. The remaining amounts obligated for open large projects related to disasters that occurred during or after 2004 totaled \$782 million as of May 11, 2009. While the overall average age of the open large projects was three years, some had remained open for ten years. In our opinion, a high priority should be placed on the resolution of the issues described in the following findings so that the remaining large number of cases reported as open may be closed as expeditiously as possible.

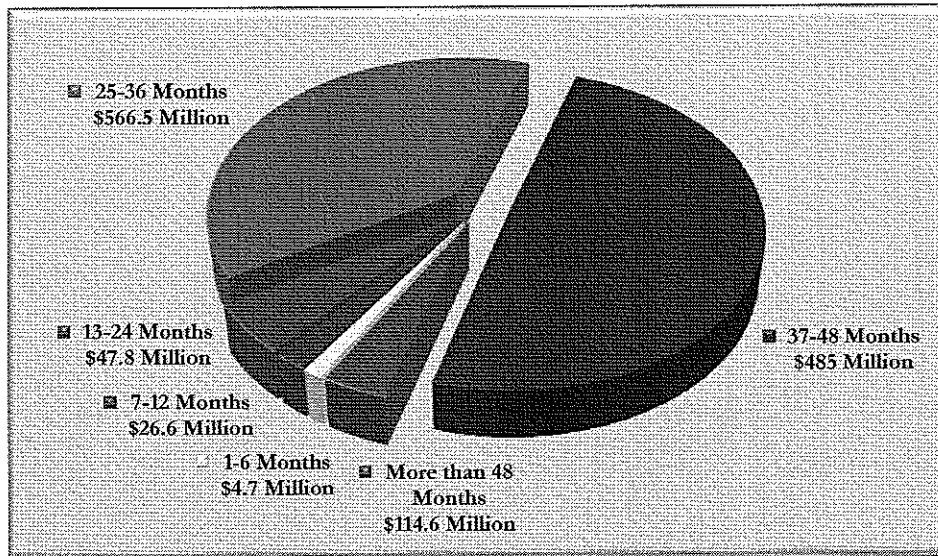
Chart 1 shows the number of months large emergency projects had been open as of February 28, 2009, and Chart 2 shows the number of months large permanent projects had been open as of that same date.

Chart 1
PA Program Large Emergency Projects (2004 Forward)
Number of Months Open as of February 28, 2009



Source: FloridaPA System.

Chart 2
PA Program Large Permanent Projects (2004 Forward)
Number of Months Open as of February 28, 2009



Source: FloridaPA System.

In the BACKGROUND section of this report and in the findings that follow, we often make reference to the involvement of both DEM and FEMA personnel in many aspects of disaster project administration, from the approval of the planned project to participation in its final inspection. The involvement by both Federal and State personnel resulted in some duplicative efforts, and based on comments made during our interviews of some local government subgrantees, confusion as to which agency should be consulted with regard to specific project issues and concerns. To minimize the duplication and confusion, we recommend that DEM, upon the resolution of the internal control findings addressed in this report and in our reports on Federal program administration, negotiate with FEMA an appropriately cooperative approach which minimizes the duplication of efforts in the completion of open projects and in the administration of future projects.

Framework for Program Administration

The PA Program operates in an environment that poses unique challenges. These challenges revolve around the Federal oversight and the transitory nature of PA Program funding. FEMA promulgates the Federal regulations DEM uses to administer the PA Program. The principal Federal regulations are general in nature and provide an operating framework, rather than specific rules, within which DEM is to administer the PA Program. FEMA staff in the FLTRO and Region IV office prepare policy directives, memoranda, and fact sheets that provide more detailed guidance on the administration of the PA Program. Additionally, FEMA FLTRO staff recommend actions to DEM staff and subgrantees relative to various aspects of PA Program administration.

PA Program funding is transitory in that the PA Program is funded based on the amount of damages incurred in a natural disaster. As disaster recovery nears completion, PA Program funding and related activities decrease and, consequently, staffing needs decrease. As a result, DEM staffs the PA Program, to a large extent, with temporary positions. An employee in one of these temporary positions works to close out project worksheets and, when the project worksheets are closed, the employee's period of employment ends.

Finding No. 1: DEM's Organizational Structure and Operating Policies

In response to the challenging environment, management must put in place an appropriate organizational structure and efficient and effective processes. These processes should be defined by written policies and procedures that clearly communicate staff responsibilities and include information systems that facilitate the maintenance of data on all projects and methods to monitor both project progress and staff productivity.

Organizational Structure

- DEM assigned the responsibilities associated with PA Program administration to various organizational units and individuals within the Bureau of Recovery, as well as to staff throughout the State. Many DEM staff telecommuted because their assigned project locations were not in close proximity to an established recovery office. DEM staff assigned to the Tallahassee office or the FRO are also required to travel as necessary to assist with response, monitor projects, and perform interim and final inspections. The resulting organizational structure was based primarily on geographic location and consisted of four Areas of Responsibility (AOR) in addition to the Tallahassee office. The supervisor and staff at each AOR was responsible for administering projects located in designated counties, while the Tallahassee office was responsible for administering projects for select subgrantee types, such as universities, Statewide. Although the Bureau of Recovery organizational structure provided direct authority and clear delineation of responsibility, it was designed primarily to facilitate response activities, rather than recovery activities. Response activities include efforts to save lives, protect property, maintain operation of essential facilities, assess damages, and develop project worksheets for use by FEMA in approving necessary funding to return the disaster area to pre-disaster conditions. Recovery activities commence after the project worksheets have been approved by FEMA and include project monitoring, reimbursement of eligible costs, and project closeout. While budget and travel constraints made it necessary for staff to perform monitoring and closeouts based on geographical areas, supervisory responsibilities should not be limited by the same constraints. Due to the varying requirements of the current population of open projects, supervisory assignments would prove more effective if based on responsibility for specific subsets of the project population. As of February 28, 2009, the population of open projects included the following subsets:
 - Pre-2004 projects that have an eight-year deadline for Federal funding of administrative costs. Upon a lapse in Federal funding, the State becomes responsible for funding 100 percent of the costs incurred to conduct final inspections, process payments, and close out the remaining projects. Based on information provided by DEM, 145 pre-2004 projects remained open.
 - Projects from 2004 and 2005 that are subject to FEMA policies set by staff at the FLTRO and require a JCT for closeout. In most cases, FEMA authorization will be required to extend eligible work deadlines.
 - Projects begun in 2006 and thereafter for which policies are set by the FEMA Region IV office in Atlanta and a JCT is not required for closeout. DEM has limited authority to extend eligible work deadlines for these projects.
- Assignments based on the characteristics of the population would allow supervisors to become subject matter experts on the requirements for the particular population and to focus on facilitating effective monitoring and timely closeout of these specific projects. Additionally, with a more thorough understanding of the nature of the particular population, supervisors would be able to establish relevant metrics for evaluating project and staff accomplishments. Currently, DEM management measures staff performance based on weekly reports submitted by staff. However, these reports do not include goals against which actual production may be objectively evaluated by Bureau of Recovery management.

Policies and Procedures

- Although DEM had established written procedures, the procedures did not provide adequate guidance to ensure staff consistently performed and documented monitoring and closeout procedures in a manner which ensured compliance with Federal regulations and policies. Additionally, DEM had not established a program to train all staff on monitoring, closeout, and system activities related to the PA Program. Given that

temporary positions made up 88 percent of the Bureau of Recovery's 141 positions as of March 10, 2009; thorough, detailed procedures and related training programs are necessary to ensure that procedures are appropriately and consistently applied. As described in subsequent findings of this report, the lack of adequate written procedures and a formalized training program contributed to breakdowns in the administration of recovery activities. Further, absent adequate written procedures and formalized training, DEM cannot ensure clear communication of staff responsibilities or accuracy of project information.

Evaluation of Program Accomplishments

- Our review of available FloridaPA System reports disclosed that, while limited reporting functionality is available in the FloridaPA System, the System is not currently capable of producing reports that would be useful to management for PA Program production. Also, as described in finding No. 2, other data systems housed portions of data related to the PA Program and, as described in finding No. 3, data in the FloridaPA System was not always accurate, further limiting the usefulness of reports produced by the FloridaPA System. Bureau of Recovery management measured performance during the audit period based on manually prepared and compiled weekly reports.

Recommendation: We recommend that DEM management evaluate the DEM organizational structure and make adjustments as necessary to assign supervisory responsibility to provide effective oversight for adequate monitoring and timely closeout of PA Program projects. To ensure compliance with Federal regulations and policies, DEM management should also enhance written policies and procedures and establish a formalized training program to provide more specific guidance to staff related to monitoring and closeout of PA Program projects. Such policies and procedures should include requirements for consistently documenting all large project information, including relevant dates that can be used to measure processing times for each stage of the project life cycle. Additionally, DEM management should establish and monitor relevant measurable goals that allow the objective evaluation of PA Program and staff accomplishments.

Completeness and Accuracy of Data Systems

The documentation maintained for the PA Program was voluminous and complex. According to DEM records, DEM was maintaining documentation for more than 8,800 large projects as of May 11, 2009. For each of these projects, DEM was to maintain information on requests for reimbursement and supporting documents, initial project worksheets, and supporting documentation. Supporting documentation was to include copies of estimates and photographs of damage, revisions to project worksheets, subgrantee quarterly report information, subgrantee contact information, and other related documentation.

Finding No. 2: Disaster Recovery Systems

A centralized information system is necessary to promote the efficient management of the PA Program; however, DEM maintained PA Program documentation in multiple systems and at various storage sites as described below:

Pre-2004 Disasters

- Florida Emergency Reimbursement System (FERS) – FERS was used to process and store payment information.
- Florida Process Automation and Paperless Electronic Routing System (FloridaPapers, PAPERS) – Various scanned documents and data including subgrantee agreements, project worksheets, and time extensions were stored in PAPERS.
- Electronic files stored on employee personal computers – Subgrantee Quarterly Reports, unapproved project worksheets, and e-mail communications were stored on DEM staff personal computers.
- Paper files – Various documents and historical status information including FERS reports were maintained in paper files at the Tallahassee office.

2004 and Subsequent Disasters

- FloridaPA System – The FloridaPA System is the primary system used to store data and documents related to disaster projects, beginning with those in the 2004 calendar year.
- Prior Version of the FloridaPA System – Data and documents continued to be stored in the prior version of the FloridaPA System due to the limited server space available following the System upgrade that occurred in September 2008.
- FloridaPapers – Documents were originally scanned into this system which interfaced with the prior version of the FloridaPA System. The upgraded FloridaPA System allows storage of scanned documents; however, historical data continued to be stored in PAPERS. The systems were no longer linked following the implementation of the upgraded FloridaPA System.
- FEMA Shared Access Database – DEM created the FEMA Shared Access Database to facilitate submission of quarterly progress reports to FEMA and to provide a historical record of related State and FEMA comments and actions regarding disaster projects.
- JCT Tracker – DEM created the JCT Tracker database by manually inputting key dates from the hardcopy JCTs. According to DEM personnel, the database was created to compensate for the lack of relevant and reliable dates in the upgraded FloridaPA System.
- Employee Shared Drive – DEM staff maintained external tracking sheets on the Employee Shared Drive to manage workloads since the FloridaPA System lacked the functionality for Public Assistance Coordinators (PAC) and their supervisors to obtain project status reports by PAC assignment.
- Employee e-mail – Due to time constraints, DEM staff maintained in their individual e-mail folders contact information that was not always scanned into the FloridaPA System.
- Employee external files – Due to time constraints, DEM staff recorded significant information in their hardcopy files that may not have been scanned or recorded into the FloridaPA System.

In addition to the records and systems referenced above, PA project disbursements for all disasters were recorded in the Florida Accounting Information Resource Subsystem (FLAIR). The maintenance of the multiple systems referenced above introduced the need for the conduct of reconciliations among the various systems, increased the opportunities for error, and reduced the ability of management and staff to efficiently obtain accurate and complete information concerning project progress and status. Generally, we found that reconciliations were not completed and, as described in finding No. 3, DEM data and reports contained numerous errors and inconsistencies. Based on interviews with DEM management and staff, the reasons for not maintaining all relevant data in the FloridaPA System included system functionality limitations, lack of server space, continued use of legacy systems, and time constraints on staff.

Recommendation: We recommend that DEM:

- Develop policies and procedures that require staff to enter all relevant data into a centralized information system and discourage the use of alternative systems or storage sites. The procedures should also clearly identify the fields where key dates should be recorded and where other key information should be stored within a centralized information system.
 - Conduct periodic reviews of the data in the FloridaPA System to help ensure the accuracy of the data recorded. Periodic reviews should include appropriate reconciliations of PA Program data contained in various IT systems, including that recorded in the State's accounting system.
-

Finding No. 3: Relevance, Completeness, and Accuracy of Data

As part of our audit, we requested data from DEM on large projects that were closed during the period July 1, 2007, through February 28, 2009, and reviewed selected aspects of FloridaPA System functionality. Our review of this data disclosed:

- For the pre-2004 projects, DEM had readily available very limited data. DEM did not provide relevant dates for pre-2004 projects such as, the date of initial approval of the project and obligation by FEMA, the date of the first payment to the subgrantee by DEM, the date of project completion, the date the subgrantee requested final inspection, and the date the final inspection was completed by DEM. Because of the lack of data, we were unable to include these projects in our detailed analysis.
- For 2004 and subsequent year disasters for which FEMA had obligated the closeout project worksheet, numerous instances existed in which the relationships between the data appeared to be indicative of errors. Specifically, we noted 1,062 instances in which it appeared that the date of the final inspection had been approved by FEMA prior to the date of the completion of the final inspection, 63 instances in which no payments had been made at the time of the final inspection and approval by FEMA, and 237 instances in which a final inspection was requested before any payments had been made. Because of these indications of errors, we reviewed the dates recorded for 1,189 of the 2,676 large projects for which FEMA had approved the final inspection and obligated the closeout version of the project worksheet during the period July 1, 2007, through February 28, 2009. Our review disclosed that one or more of the dates recorded for 1,048 of the 1,189 projects reviewed were incorrect (88 percent). For example, we noted that the first payment date was incorrect for 49 projects, the date of the request for final inspection was incorrect for 104 projects, the final inspection completion date was incorrect for 959 projects, and the FEMA approval date was incorrect for 9 projects.
- DEM did not have the ability to close projects in the FloridaPA System. Without the ability to close projects in the FloridaPA System, DEM had limited options to identify projects where final closeout payments had been made and no further activity was necessary. This also leaves projects where final inspections have been conducted and approved by FEMA open to activity which may be unnecessary or detrimental to the closeout process. Such activities may include, for example, inaccurate changes to status or additional payments.

Without maintaining complete, accurate, and relevant data and documents, the FloridaPA System does not facilitate the effective management of PA Program projects, particularly given the temporary nature of the staffing and the resulting lack of historical knowledge by many of the field staff. Additionally, absent accurate and complete information, the FloridaPA System is not useful to management for identifying where problems may be occurring, evaluating the productivity of staff, or tracking and reporting the progress made in closing out various types of projects.

Recommendation: We recommend that DEM:

- **Compile and maintain centralized current data on open projects related to pre-2004 disasters.**
 - **Enhance the functionality of the FloridaPA System to allow for the recording of relevant, complete, and accurate project data. This functionality should include the ability to close completed projects.**
 - **Develop FloridaPA System reports that are useful for PA Program management.**
-

Monitoring of Open Projects

As previously discussed, DEM had 2,870 large projects remaining open at February 28, 2009. Also, as described in finding No. 1, DEM had not established an effective organizational framework for monitoring disaster projects. Effective monitoring of open projects would allow DEM to detect circumstances where the scope of the project had

significantly changed from the approved scope, identify projects that are running behind schedule, and recognize when costs are higher than originally anticipated. When these situations are detected, DEM staff could work with the subgrantee to seek revised project worksheets and time extensions from FEMA. During the audit period, DEM staff monitored open disaster projects through review of subgrantee Quarterly Report Forms (Quarterly Reports) and, in a few instances, through interim inspections. Our tests of the effectiveness of these monitoring activities disclosed deficiencies in DEM procedures for reviewing and following up on issues shown by subgrantee Quarterly Reports and in conducting and documenting interim inspections.

Finding No. 4: Review and Follow-Up on Subgrantee Quarterly Reports

Progress reports are critical to ensuring that FEMA and the State have up-to-date information on PA Program projects, and FEMA requires the State to submit quarterly progress data that generally focus on large projects.

Federal regulations require the State to report the status for all projects for which a final closeout payment of the Federal share has not been made to the grantee.³ Further, FEMA requires the State to submit the following information: (1) the status of the project, such as, in design or percentage of construction completed; (2) time extensions granted, if any; (3) the projected completion date; (4) the amount of expenditures and amount of payments for each project; and (5) any problems or circumstances that could delay the project or result in noncompliance with the conditions of the FEMA approval of the project. To satisfy FEMA reporting requirements, DEM required subgrantees to submit Quarterly Reports to DEM providing the status of each subgrantee project.

The Quarterly Reports provide fields for the subgrantee to indicate the project worksheet number, anticipated completion date for each project worksheet, the percent complete, and the status or any remarks regarding other circumstances that may affect the completion date, scope of work, project costs, or compliance with the Subgrantee Agreement. For each project, in addition to the data submitted by the subgrantee, DEM also included in the quarterly progress data submitted to FEMA the total eligible amount; the total amount expended by the subgrantee; and the Federal, State, and administrative amounts paid to the subgrantee. These data elements were extracted from the FloridaPA System and incorporated into the database shared with FEMA. The financial data and information submitted by the subgrantee were replaced each quarter, but DEM comments and FEMA comments and recommendations from previous quarters were brought forward each quarter providing a historical commentary.

Our review of DEM's quarterly reporting policies and procedures disclosed that, while DEM provided, for subgrantee information, a sample Quarterly Report with a footnote explaining the reporting of the percent complete field, DEM had not developed written instructions for completing the Quarterly Reports. Without instructions that outline when reports should be submitted and what data should be reported, DEM cannot reasonably ensure that all reports required by Federal regulations are properly prepared and submitted.

Our review of DEM's quarterly reporting policies also disclosed that DEM required subgrantees to submit information on projects until final inspections were completed, rather than until the final closeout payment was subsequently made. The DEM-required reporting of all subgrantee projects until completion of final inspections, rather than until the final closeout payment was made, resulted in incomplete reports being submitted to FEMA.

Further, our review of DEM's policies and procedures disclosed that DEM staff were required to approve the Quarterly Reports; however, DEM had no written procedures that provided guidance to staff on the review and approval of the Quarterly Reports. Additionally, there was no guidance on how to utilize the Quarterly Reports to identify projects that required additional follow-up. Absent consistent review and use of the Quarterly Report

³ Title 44, Section 206.204(f), Code of Federal Regulations.

information to monitor the progress of disaster projects and to identify those inconsistencies in the data reported that potentially indicate that the data is inaccurate or that the need for follow-up exists, inaccuracies or problems may go undetected. Without timely detection and follow-up, DEM and FEMA decisions may be based on erroneous data or significant delays in project completion may occur that might have been reduced or avoided.

Our audit also included tests of submitted Quarterly Reports, and those tests disclosed several instances in which anomalies in Quarterly Reports had not been detected and resolved, although the Quarterly Reports had been reviewed by DEM staff. The absence of written instructions for the preparation of the subgrantee Quarterly Reports and the absence of written procedures describing DEM review, follow-up, and approval responsibilities contributed to these unresolved issues. We reviewed one project from each of 20 Quarterly Reports submitted by subgrantees and approved by DEM during the period July 1, 2007, through December 31, 2008. Our tests of the reporting of these projects, with eligible costs totaling \$117 million, disclosed that for 6 of the 20 Quarterly Reports, although 100 percent or more of eligible project costs were reported as expended, 75 percent or less of the scope of the project was reported as complete. For these 6 Quarterly Reports, no contacts between DEM staff and the subgrantees related to the accuracy of the data, the need for time extensions, or the potential need for additional funding were documented in the FloridaPA System. For all 6 projects, FEMA had recommended follow-up and for 4 of the 6 projects, FEMA specifically requested DEM to work with the subgrantee to request time extensions. While documentation was available to show that DEM had subsequently requested time extensions for the 4 projects, DEM had not documented in the FloridaPA System actions taken to follow up on the remainder of the FEMA recommendations.

As described below, in response to our inquiry, DEM confirmed that 5 of the 6 Quarterly Reports contained inaccurate percentages of completion and that one project would likely incur a significant cost overrun:

- Two reports showed zero percent project completion, but 100 percent of the eligible amount expended for projects with obligated amounts totaling \$906,185. DEM indicated that both reports should have reflected that the projects were 90 percent complete. DEM corrected the completion percentage in the database for one project prior to submission to FEMA. Both reports remained uncorrected in the FloridaPA System.
- One report showed zero percent project completion, but 216 percent of the eligible amount expended. The eligible amount reported for this project totaled \$1,494,791. DEM staff stated that approval was pending for a new version of the project worksheet to restore approximately \$2.7 million in funding that had been inadvertently omitted. Such an increase in eligible costs for the project would change the percentage of the eligible amount expended. DEM did not include comments explaining these pending changes or correct the percentage of completion in the submission to FEMA or in the FloridaPA System.
- One report showed 75 percent project completion, but 100 percent of the eligible amount totaling \$469,022 expended. DEM indicated that the report should have shown the project as 100 percent complete, but no corrections were made to the submission to FEMA or to the FloridaPA System.
- One report showed 50 percent project completion, but 100 percent of the eligible amount expended. The subgrantee reported that \$6,385,485 was expended when eligible project costs totaled \$6,302,781. DEM stated the State and Federal share represented less than 2 percent of the total eligible amount.
- One report showed 40 percent project completion, but 148 percent of the eligible amount totaling \$736,076 expended. DEM indicated that the project would likely incur a significant cost overrun. DEM stated that the subgrantee should request an interim inspection to allow for consideration of adjustments for increased costs. DEM did not submit comments informing FEMA of this possible overrun.

Recommendation: We recommend that DEM require subgrantees to submit Quarterly Reports until the final closeout payment is made. To ensure the accuracy of information reported to FEMA and the identification of projects requiring follow-up, DEM management should develop procedures regarding the preparation, review, and approval of Quarterly Reports. Additionally, DEM management should ensure timely resolution of identified discrepancies and instances where FEMA consideration of time extensions or project obligation amount adjustments may be necessary. Further, data in the FloridaPA System should be updated as appropriate.

Finding No. 5: Performance of Interim Inspections

DEM's agreements with its subgrantees required that interim inspections be scheduled by the subgrantee prior to the final inspection and interim inspections may also be required by DEM based on information supplied in the Quarterly Reports. DEM staff indicated that during the audit period interim inspections were most often initiated at the request of the subgrantee or by FEMA due to concerns related to time extensions or possible project scope changes. Project scope changes generally resulted from additional damages or higher than estimated costs that could only be confirmed by a site inspection. After receiving a subgrantee request, FEMA staff determined whether to perform a joint interim inspection for projects managed by the FRO and, in the Tallahassee office, DEM staff made the determination regarding DEM interim inspections. In early 2008, Tallahassee DEM staff also began to initiate interim inspections, rather than waiting for a request for an interim inspection from a subgrantee or FEMA.

DEM planning managers in Tallahassee and at the FRO did not have established criteria for determining when an interim inspection was necessary, nor did they maintain a listing of planned or completed interim inspections. In response to our request, Tallahassee office staff were able to compile a list of 26 interim inspections completed during the audit period. Staff at the FRO were unable to provide a listing of interim inspections conducted during the audit period; however, in response to our inquiries, FRO staff submitted 7 examples of interim inspection reports for our review. Our review of 10 of the 33 available interim inspection reports disclosed:

- Six of 10 interim inspection reports did not include adequate information to determine the purpose for and results of the inspections.
- The conduct of 5 of 10 interim inspections was not recorded in the FloridaPA System.
- Two of 10 interim inspection reports did not include the applicable disaster name or number or the project worksheet number; therefore, the projects for which the inspections were performed could not be identified.

Absent complete information, consistently recorded in a readily accessible location, issues and findings and actions taken to resolve issues may not be available to DEM staff performing duties related to project oversight and payments. In addition, absent properly planned and conducted interim inspections, DEM may not timely identify issues and concerns, such as unallowable activities or unauthorized purchases, prior to making payments related to a project. For example, our physical observations of five projects identified in the FloridaPA System as being substantially complete, disclosed one instance in which we observed a vacant lot at the address listed on the project worksheet instead of a high school science building that was to have been built at the location. DEM personnel indicated that they were aware that the building had been built at an alternate location; however, DEM staff were unable to provide documentation to support notification or prior knowledge of the change in location. Additionally, revised project worksheets were not prepared or submitted to FEMA to identify the new location. Further, our review of the project worksheet for this project disclosed that, while funding was provided for the demolition of the damaged facility and construction of the new building, supporting documentation for payments totaling \$957,000 included costs for portables that had been earlier removed from the project worksheet scope, as well as for other

items not authorized for purchase, including textbooks, computers, and cheerleader uniforms. A properly conducted interim inspection for this project may have timely detected and resolved these issues.

Recommendation: DEM should develop procedures for identifying when interim inspections should be conducted, rather than relying solely on subgrantees to request inspections. Additionally, when inspections are conducted, DEM should ensure that appropriate information is recorded in the FloridaPA System to identify the inspected project, the purpose for and results of the inspection, any follow-up required, and the results of follow-up procedures.

Final Inspections and Project Closeouts

As discussed above, DEM performs final inspections and project closeout procedures that help to facilitate DEM's certification to FEMA that reported costs were incurred in the performance of eligible work, the approved work was completed, the project was in compliance with the provisions of the FEMA-State Agreement, and payments for the project were made in accordance with Federal regulations. Federal regulations require that final inspections be completed and payment requested prior to submitting the closeout package to FEMA.⁴ DEM management had written procedures in place during most of the audit period for performing final inspections and, in January 2008, DEM management revised the procedures to require that final eligible costs calculated during the closeout process be reconciled to payments made. Any differences noted between the final eligible costs and amounts paid were to be resolved immediately.

Finding No. 6: Final Inspection Procedures

Our audit included a review of DEM final inspection procedures and documentation, including the JCT forms. Our audit disclosed:

- DEM procedures for the scheduling of final inspections did not encourage the timely completion of final inspections and closeout of the projects. Specifically, while DEM policy required a final inspection before the final closeout payment was made, in practice, DEM continued to make payments up to a project's obligated amount and did not withhold payments pending the final inspection. Additionally, DEM's policy for scheduling final inspections was to wait for the subgrantee to submit a request for final inspection, rather than to schedule the final inspection once the subgrantee reported the project was complete. As noted in EXHIBIT A, on average, subgrantees requested final inspections from 399 to 555 days after a project was completed.
- As indicated under the BACKGROUND heading of this report, for 2004 and 2005 calendar-year disasters, DEM staff in the FRO were required to complete a JCT, and FEMA staff accompanied DEM staff on the final inspections. Our review of the 20 standard forms included in the JCT disclosed that much of the required information is duplicative of information already recorded in the FloridaPA System or required by other forms within the JCT. Specifically:
 - The Photo Sheet and the FloridaPA System both contain photographs documenting facility damage.
 - The Summary of Documentation is included in the FloridaPA System with subgrantee requests for payment.
 - The Request for Large Project Final Inspection is also included as a separate document in the FloridaPA System.

⁴ Title 44, Section 206.205(b), Code of Federal Regulations.

- The Project Worksheet - Scope of Work Continuation Page requires a description of the procedures performed at the final inspection, a summary of work performed, and a summary of the same amounts included on the Project Cost Summary section of the Closeout Project Worksheet.
- A separate form is required to be completed for special considerations such as availability of insurance, whether the project is in a flood plain, whether the building has historical value, etc. This information is also available on the Project Worksheet Report and in the FloridaPA System.
- The Final Inspection Signoff Report requires estimated and actual eligible amounts, the final cost overrun or underrun, if applicable, and comments that are identical to the information included in the Closeout Project Worksheet. Additionally, the report requires signatures of the staff involved in the final inspection, who are the same individuals required to sign the Record of Transmittal.
- The Final Inspection Signoff Report - Continuation Page requires the same information as the Project Worksheet – Scope of Work Continuation Page.
- The Final Inspection Comments Form requires the same information as the Project Worksheet - Scope of Work Continuation Page.
- The Joint Closeout Information Form requires the reporting of the same amounts as the Closeout Project Worksheet and the Final Inspection Signoff Report.
- The Variance Summary requires the reporting of the same amounts as the Joint Closeout Information Form, Closeout Project Worksheet, and the Final Inspection Signoff Report.

Requiring duplication of information and calculations across various forms increases JCT preparation time, as well as the risk for errors and inconsistencies. A listing with a brief description of each form included in the JCT is included in EXHIBIT B to this report.

Recommendation: We recommend that DEM management consult with FEMA to determine the necessity of completing information identified as duplicative in the JCT. In addition, DEM management should ensure that procedures and documents established to close out disasters that occurred subsequent to 2005 do not require information be recorded multiple times. DEM should also develop a process for identifying completed projects and timely scheduling final inspections, rather than waiting for subgrantees to request a final inspection.

Finding No. 7: Performance of Final Inspections and Project Closeouts

Based on data provided by DEM for large projects, 2,951 projects with eligible obligated amounts totaling \$1,092,400,241 were closed during the audit period, including 275 projects that were deobligated. Deobligated projects did not require final inspections. Of the remaining 2,676 projects, 99 percent related to 2004 and 2005 calendar year disasters and were required by FEMA to have a JCT completed as part of the final inspection.

We reviewed documentation related to 20 final inspections performed during the period July 1, 2007, through February 28, 2009. The final obligated amounts for the projects inspected totaled \$12.9 million which included \$8.9 million originally obligated and \$4.1 million of additional eligible costs validated during the final inspection process. One project was not subject to the JCT requirement because it related to the 2000 South Florida Floods. DEM had no written procedure in place at the time the final inspection was performed for this project and our review of the final inspection documentation disclosed that DEM had not described the sampling procedures applied to validate the final eligible costs totaling \$335,419. Therefore, the adequacy of the final inspection was not documented. For the projects related to the other 19 final inspections reviewed, DEM was required to complete a JCT. Our review of the final inspection documentation for these 19 projects disclosed the following deficiencies:

- One or more of the required JCT forms were not included with the scanned closeout documents available in the FloridaPA System for 9 of the 19 projects:
- Six closeout packages were missing the D1 form. Generated from FEMA's system, this report lists projects by subgrantee for each disaster and is used to document that other project worksheets for the same subgrantee and disaster have been considered during the closeout process.
 - Two closeout packages were missing the Final Inspection Comments form that includes a description of the methods and procedures used to complete the final inspection. (These packages were also listed in the first bullet.)
 - One closeout package was missing the Variance Summary Form and the Invoice Summary Record form. The Variance Summary Form compares obligated costs to eligible closeout documented costs and shows resulting variances, and the Invoice Summary Record lists all the invoices paid by the subgrantee related to the project.
 - One closeout package was missing the Joint Closeout Information form that includes the disaster number; project worksheet number; applicant name; name and location of the damaged facility; name of the applicant, State, and FEMA representatives present during closeout; Federal cost share percentage; calculation of any cost overruns or underruns for the project; actual completion date; and projected completion date.
 - One closeout package was missing the Final Summary of Documentation form that lists the warrant or voucher number, date of delivery, description and or documentation, and eligible costs of total articles or services for which project expenditures were claimed.
 - One project had no closeout documents included in the FloridaPA System. According to the FloridaPA System information, the project status was "closed – waiting for approved, documented expenses."

Without the required documentation, DEM cannot demonstrate that costs have been appropriately determined as eligible, that all open projects were considered in relation to the project under review, and that the inspection was conducted in accordance with established procedures.

- Although required, the closeout packages contained no documentation to evidence that the calculated eligible costs were reconciled to payments. Our review of the 19 project closeout packages disclosed that for 5 projects the payments did not equal the final eligible costs calculated during the closeout process. Specifically:
- For 3 of 4 projects with identified overpayments, DEM had not recovered overpayments totaling \$10,155.
 - Two projects were closed on March 26, 2008, and August 11, 2008, respectively. However, as of April 2009, the System showed unpaid balances for final eligible costs totaling \$32,332.

Absent the reconciliation of a final accounting of total payments to the final eligible costs calculated during the closeout process, subgrantees cannot submit final requests for payment and DEM cannot ensure that the correct amounts were paid. Further, DEM is unable to certify that payments for the project were made in accordance with Federal regulations.

Recommendation: To demonstrate the adequacy of final inspections, we recommend that DEM management ensure that appropriate documentation is retained in the FloridaPA System. We also recommend that DEM management ensure that a reconciliation of total payments to final eligible costs is timely performed and documented as part of the project closeout process and that any differences in the amounts are timely resolved, in accordance with established procedures. DEM should ensure that, in accordance with Federal regulations, final closeout payment requests are submitted prior to submitting the closeout packages to FEMA.

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 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 obtaining an understanding of the causes of the delays in settling of disaster claims for large projects. The overall objectives of the audit were:

- To evaluate 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 relevance and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To obtain a complete understanding of the reasons for delays in closing out large PA Program projects.
- To determine whether DEM had an adequate monitoring process in place to detect delays in project completion.
- To determine whether DEM had procedures in place to provide for the timely closeout of completed projects.
- To determine whether DEM timely closed out large projects. Additionally, to determine whether DEM's closeout process was effective in identifying eligible costs and recovering overpayments.
- To determine whether DEM's process for closing out large projects ensured that DEM maximized the Federal funding available for administrative costs and overpayments are recovered from subgrantees.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

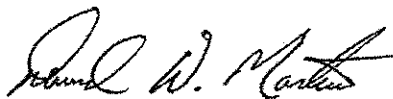
Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 2007 through February 2009. In conducting our audit we:

- Interviewed DEM personnel.
- Obtained an understanding of internal control and tested key processes and procedures related to DEM's monitoring and closeout of large projects. Specifically, we:
 - Evaluated internal controls over DEM's process for closing out large projects.
 - Evaluated the qualifications of 10 DEM staff responsible for the oversight and conduct of interim and final inspections for large projects.
 - Reviewed the final inspection documentation for 20 large projects to determine whether inspections were performed in accordance with established procedures, adjustments to eligible costs were properly documented, and any identified overpayments were properly recovered.
 - Evaluated internal controls over DEM's process for monitoring large projects.

- Selected a Quarterly Report for 20 subgrantees to determine whether the reports were properly completed and timely submitted. We also determined whether DEM contacted subgrantees when reported data contained inconsistencies.
 - Selected 10 large projects from subgrantee Quarterly Reports and reviewed the related documentation to determine whether DEM performed follow-up procedures, such as seeking time extensions for projects that would not meet approved project completion dates, for any issues noted.
 - Reviewed documentation for 10 interim inspections of large projects to determine whether the documentation adequately identified the purpose for and results of the inspection and whether related documentation had been recorded in the FloridaPA System.
 - Physically observed five large projects to verify that the status of the construction agreed with the status reported to DEM by subgrantees.
 - Interviewed 10 subgrantees to enhance our understanding of DEM's management of large projects.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial 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.

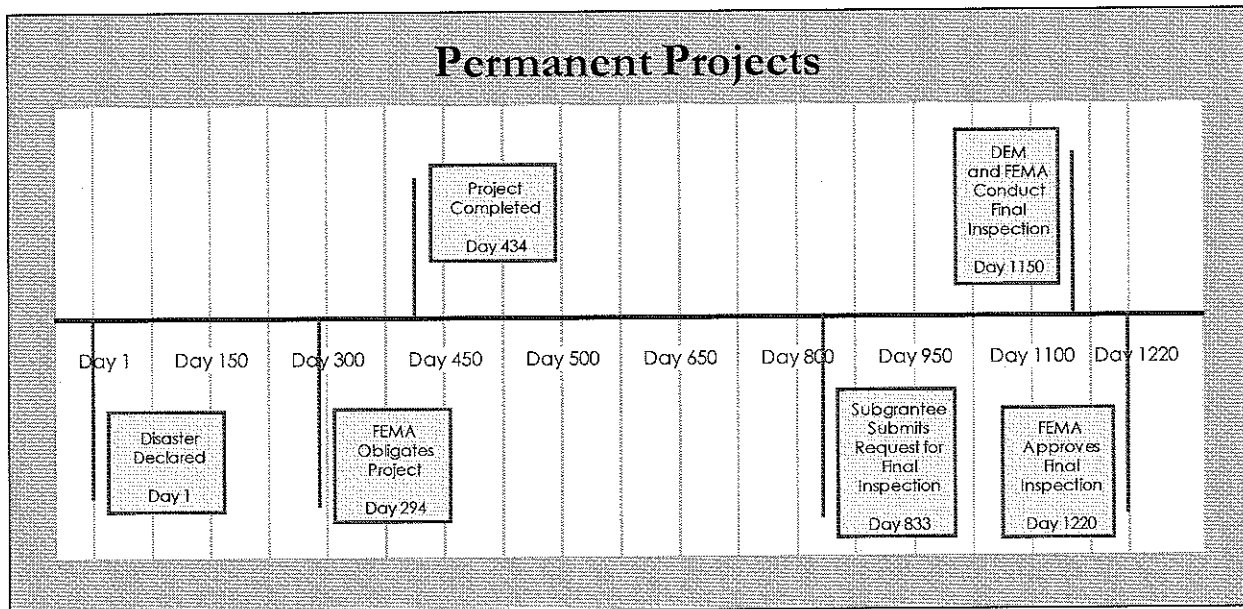
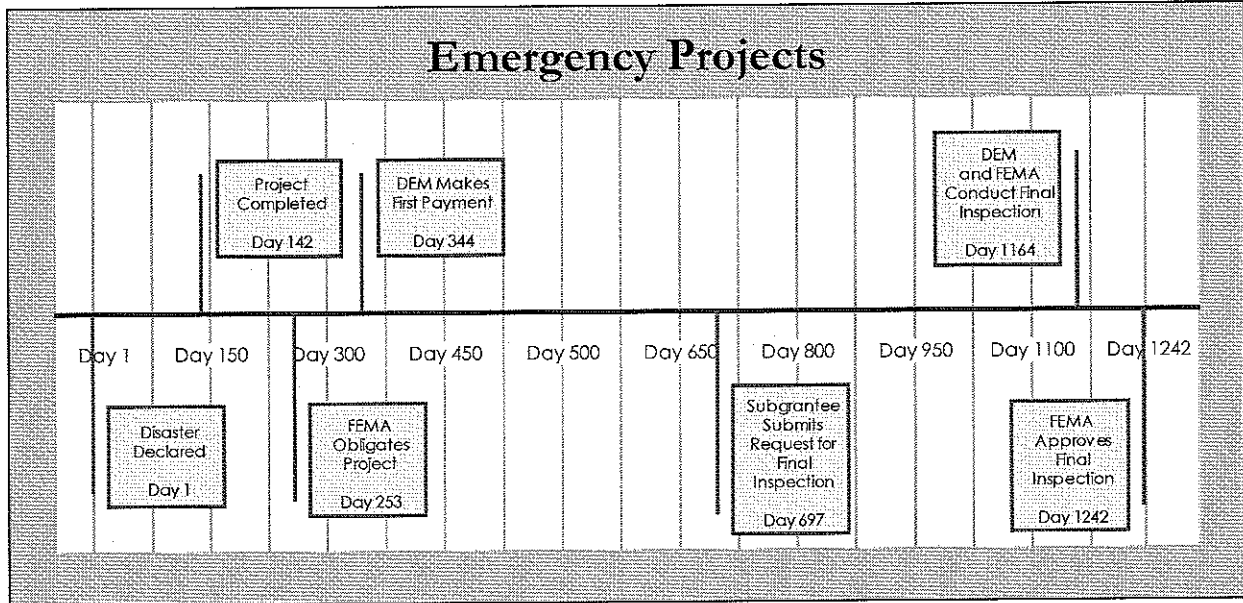


David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated August 31, 2009, the Interim Director concurred with our audit findings and recommendations. The Interim Director's response is included as EXHIBIT C.

**EXHIBIT A
LARGE PROJECT TIMELINES
BASED ON AVERAGE NUMBER OF DAYS FOR PROJECTS CLOSED
DURING THE PERIOD JULY 1, 2007, THROUGH FEBRUARY 28, 2009**



Source: FloridaPA System.

**EXHIBIT B
LISTING OF FORMS INCLUDED
IN THE JOINT CLOSEOUT TOOL (JCT)**

	Form	Description
1.	Reviewers Confirmation Transmittal	Routing form to document review and approval by FEMA specialists for floodplain, environmental, historical, mitigation, insurance, and debris considerations: data submitted to FEMA Division Supervisor: and the date the JCT was submitted to FEMA for processing.
2.	Record of Transmittal	Provides signature blanks for the FEMA group supervisor, State PA officer, State Recovery manager, and FEMA Branch Director at the FLTRO in Lake Mary.
3.	Table of Contents	Identifies items included in the JCT.
4.	Joint Closeout Information Form	Includes the disaster number; project worksheet number; applicant name; name and location of the damaged facility; names of the applicant, State, and FEMA representatives present during closeout; Federal cost share percentage; calculation of any project cost overruns or underruns; actual completion date; and projected completion date.
5.	Final Inspection Signoff Report	Includes the disaster number; project worksheet number; applicant name; name and location of the damaged facility; names of the applicant, State, and FEMA representatives present during closeout; Federal cost share percentage; calculation of any project cost overruns or underruns; and a description of the procedures applied during the final inspection.
6.	Final Inspection Signoff Report – Continuation Page	Used to continue the description of the procedures applied during the final inspection and any variances identified from the Closeout Project Worksheet.
7.	Final Inspection Comments	Includes a description of the methods and procedures used to complete the final inspection.
8.	Variance Summary	Compares obligated costs to eligible closeout documented costs and shows resulting variances.
9.	Invoice Summary Record	Lists all the invoices paid by the subgrantee related to the project.
10.	Alternate-Improved Project Cost Variance	Completed only when an alternate or improved project was completed. Identifies the original estimate, insurance recoveries, the FEMA eligible project estimate, and the eligible costs.
11.	Closeout Project Worksheet	Includes the disaster number, project worksheet number, applicant name, name and location of the damaged facility, Federal cost share percentage, calculation of any project cost overruns or underruns, and a description of the procedures applied during the final inspection.
12.	Project Worksheet – Scope of Work Continuation Page	Used to continue the description of the procedures applied during the final inspection and any variances identified from the Closeout Project Worksheet.
13.	Project Costs Continuation Page	Lists project costs by category, such as force account labor, equipment, and materials, along with the cost of those items.
14.	Special Considerations	Includes fields to identify areas that require special consideration, such as insurance recoveries, floodplain or other environmental concerns, proposed changes to the pre-disaster condition, historic significance, and hazardous materials. This information is also documented in the initial project worksheet prepared and submitted to FEMA for approval.
15.	Final Summary of Documentation	Lists the warrant or voucher number, date of delivery, description of documentation, and eligible costs of total articles or services for which project expenditures were claimed.
16.	Final Summary of Documentation 2	Lists the warrant or voucher number, date of delivery, description of documentation, and eligible costs. The format of the document is different than the Final Summary of Documentation described above.
17.	Photo Sheet	Includes photographs documenting the damage to the facility.
18.	D1	Generated from FEMA's system, this report lists projects by subgrantee for each disaster and is used to document that other project worksheets for the same subgrantee and disaster have been considered during the closeout process.
19.	Project Worksheet Report	Includes the disaster number, project worksheet number, applicant name, name and location of the damaged facility, completion date, eligible costs, special consideration information, a description of the work performed, and information on the approver and date approved for the State and FEMA.
20.	Request for Large Project Final Inspection	Form completed by the subgrantee to request a final inspection. This form is available in the FloridaPA System.

Source: DEM Records.

EXHIBIT C
MANAGEMENT'S RESPONSE



STATE OF FLORIDA
DIVISION OF EMERGENCY MANAGEMENT

CHARLIE CRIST
Governor

RUBEN D. ALMAGUER
Interim Director

August 31, 2009

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

Dear Mr. Martin:

Enclosed is a list of responses prepared by the Division of Emergency Management to the tentative audit findings and recommendations prepared by the Auditor General regarding the operational audit of the Division of Emergency Management, for the period July 2007 through February 2009.

Pursuant to Section 11.45(4)(d), Florida Statutes, the Division submits this report, as required, to the Auditor General within thirty (30) days of receiving the Auditor General's list. Please accept this written statement of explanation concerning all of the findings, including the Division's actual and proposed corrective actions.

If you have any questions or should you require additional information, please contact Doug Wright, Recovery Bureau Chief, at (850) 413-9963 or by e-mail at laura.beagle@em.myflorida.com.

Sincerely,

Ruben D. Almaguer
Interim Director

DW/lb/frs

Enclosure

cc: Candie Fuller, Inspector General

EXHIBIT C
MANAGEMENT'S RESPONSE (CONTINUED)

According to Division of Emergency Management (Division) records, on February 28, 2009, the Division had 2,870 open large projects relating to disasters that occurred between 1999 and 2008 with the majority of the projects being related to 2004 and 2005 calendar-year disasters. The Auditor General's operational audit of DEM focused on obtaining an understanding of the causes for the delays in settling large project disaster claims for project activity during the period July 2007 through February 2009.

Finding No. 1: DEM organizational structure and procedures were not effectively designed to ensure that disaster projects were appropriately monitored and closed in a timely manner.

DEM Response:

DEM concurs with the Auditor General. The Public Assistance Standard Operating Guide will be rewritten by June 2010 to ensure that projects are appropriately monitored and closed.

Finding No. 2: DEM maintained disaster project documentation in multiple systems and at various storage sites rather than in a centralized information system.

DEM Response:

DEM concurs with the Auditor General. Changes have been requested from the software developer to provide a central information and storage system by June 2010.

Finding No. 3: The FloridaPA System contained inaccurate and incomplete data, limiting DEM management's ability to effectively manage disaster projects.

DEM Response:

DEM concurs with the Auditor General. The FloridaPA.org system will be reviewed to remove inaccurate and incomplete data by June 2010.

Finding No. 4: DEM did not provide written instructions to subgrantees on the preparation of Quarterly Reports or to staff on the review and approval of Quarterly Reports. Additionally, DEM procedures for reviewing and approving Quarterly Reports were not effective in disclosing and resolving anomalies in the data reported.

DEM Response:

DEM concurs with the Auditor General. The Quarterly Report process will be refined and improved to assist subgrantees and DEM staff in identifying and resolving anomalies in data submissions by June 2010.

Finding No. 5: DEM did not maintain a listing of planned or completed interim inspections for disaster projects. Additionally, DEM did not always properly document completed inspections.

EXHIBIT C
MANAGEMENT'S RESPONSE (CONTINUED)

DEM Response:

DEM concurs with the Auditor General. A listing of planned and completed interim inspections will be maintained by the Bureau. Staff will be instructed on proper documentation of completed inspections. This corrective action will be completed by January 30, 2010.

Finding No. 6: Information and calculations required by the Joint Closeout Tool documents were duplicative and resulted in inefficiencies. In addition, DEM's policy of waiting for subgrantees to request final inspections, rather than scheduling the inspections when projects were identified as complete, contributed to extensive delays.

DEM Response:

DEM concurs with the Auditor General. The JCT process will be replaced and another methodology will be put in place to facilitate project closeouts. The Bureau will schedule final inspections for projects identified as complete. Corrective action will be completed by June 2010.

Finding No. 7: DEM did not always retain the documentation necessary to demonstrate the adequacy of the final inspections. Also, contrary to established procedures, the eligible costs calculated during the final inspection process were not reconciled to amounts already paid to subgrantees.

DEM Response:

DEM concurs with the Auditor General. Documentation will be retained to confirm the adequacy of final inspections. Procedures will be revised to ensure the eligible costs calculated during the final inspection process are reconciled to amounts already paid to subgrantees and any payments be submitted prior to closeout. Corrective action will be completed by January 30, 2010.

Agenda Item 3

STATE BOARD OF ADMINISTRATION
INTRODUCTION TO THE SBA
NOVEMBER 2009

investing for
FLORIDA'S
future

SBA

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The SBA is a leader among PUBLIC PENSION FUNDS

Creating Value

Founded over 60 years ago, today's SBA is one of the nation's leading public pension funds.

Priorities

Over 82% of the assets managed by the SBA are in the Florida Retirement System (FRS) Pension Plan Trust Fund.

Strong leadership, good public policy, investment performance and accountability are important to long-term success.

Managing Risk

The SBA has enhanced its risk management, compliance and oversight policies and continues to seek areas for improvement.

Performance

The SBA's focus on prudent cost-effective, risk-controlled and long-term investment strategies has produced good cumulative performance.

The FRS has been and continues to be one of the leading retirement plans in the nation on an actuarial basis.

OVERVIEW

The State Board of Administration (SBA), an agency with roots that date to 1929 was originally created to manage debt service investments for bond revenues secured by gasoline tax proceeds. The SBA has evolved to become the fourth largest and one of the most respected pension funds in the nation. As of September 30, 2009 the SBA managed \$115 billion in qualified retirement funds and more than \$18 billion in non-qualified assets. In addition, we administer several major statewide programs, including the Florida Hurricane Catastrophe Fund and the Public Employees Optional Retirement Program (PEORP).¹

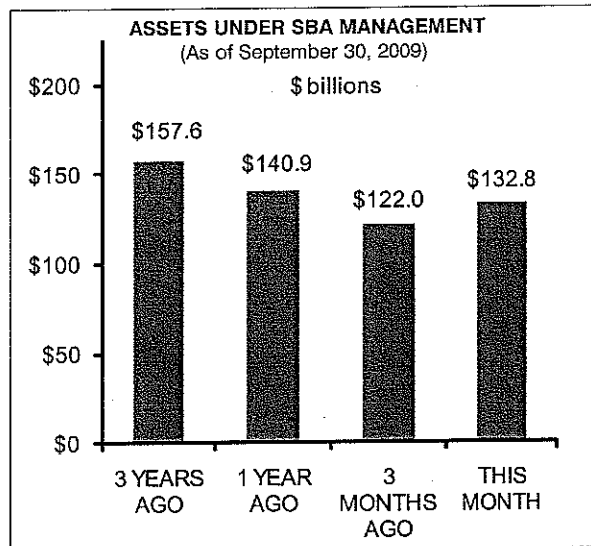
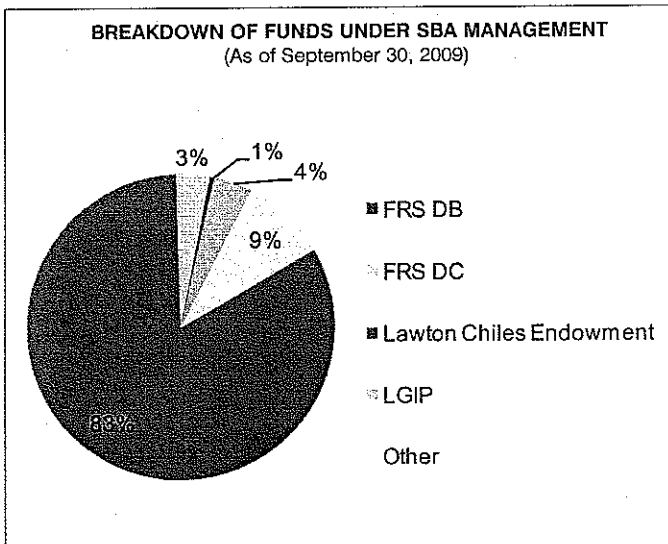


The Florida Constitution mandates that we operate as a constitutional public body corporate governed by our Board of Trustees. The SBA has a measurable bottom line and benchmarks, which means that success and accountability can be assessed.

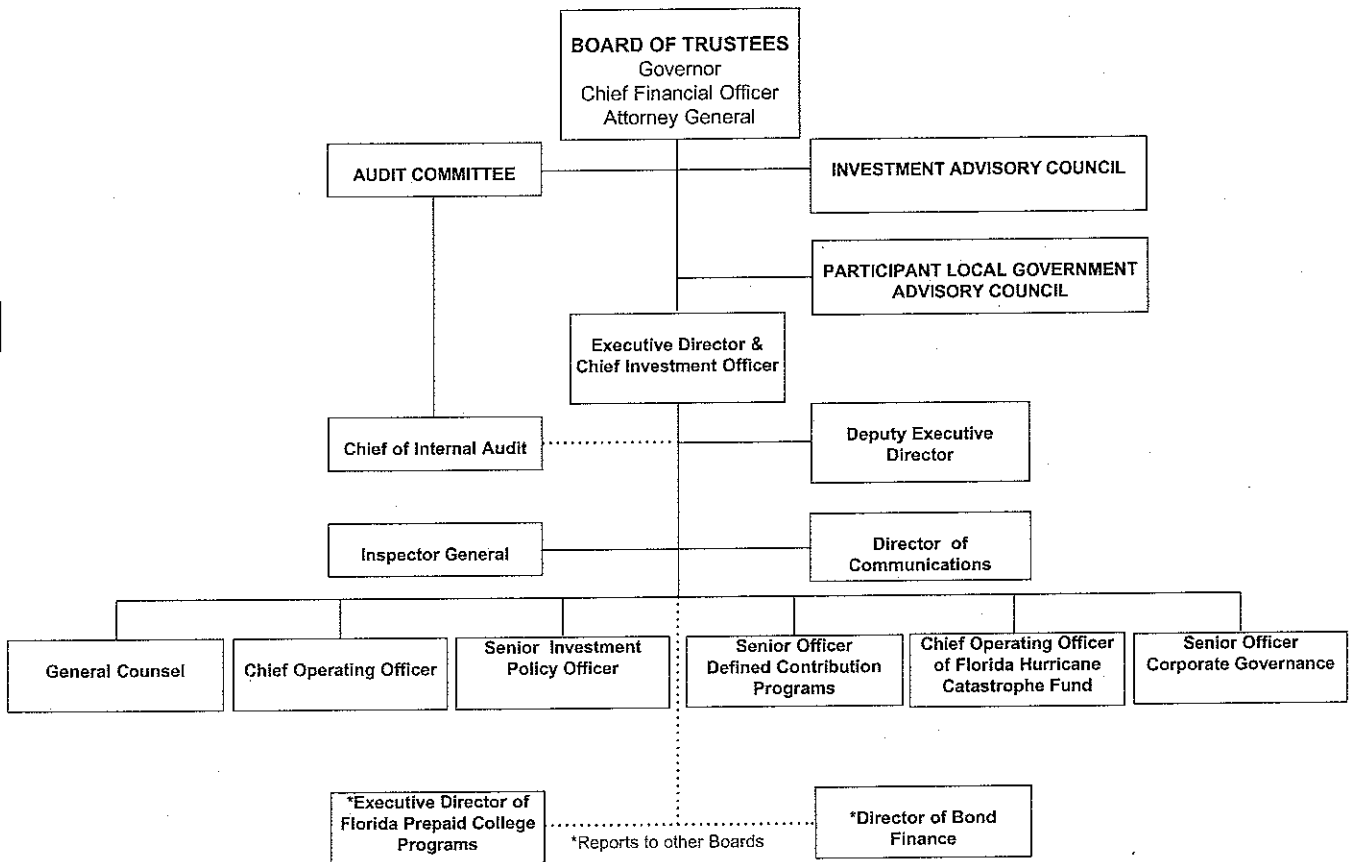
With the strong leadership and support of the Trustees, the SBA has used its status within state government to provide effective investment management and administrative services to 980,000 members and retirees of the FRS as well as our other state and local government clients. In order to maintain our position as a recognized leader in the industry, we continue to strive to maximize the return on investments while prudently managing risk, controlling costs, and performing our duties ethically and with the highest professional standards.

We hope that you will find this introductory book helps you become more familiar with the SBA and its activities. Please visit our website www.sbsfla.com for additional information about the SBA. For additional information on the FRS Investment Plan and Financial Guidance Program visit www.myfrs.com. For additional information about Florida PRIME and the Florida Hurricane Catastrophe Fund visit www.sbafla.com/prime and www.sbafla.com/fhcf.

¹ PEORP has the following components: (1) The FRS Investment Plan, an optional 401(a) defined contribution plan that employees choose in lieu of membership in the FRS Pension Plan (a traditional defined benefit plan); (2) Processing about 75,000 enrollments annually into the two FRS retirement plans; and (3) The MyFRS Financial Guidance Program, providing about 700,000 employees retirement planning support.



ORGANIZATIONAL CHART



PRIMARY RESPONSIBILITIES

The State Board of Administration (the "SBA" or the "Board") provides a variety of investment services to state and local governmental entities. These services include managing the assets of the Florida Retirement System (FRS) Pension Plan (i.e., defined benefit plan) and Investment Plan (i.e., defined contribution plan), the Lawton Chiles Endowment Fund, the Local Government Surplus Funds Trust Fund (also known as "Florida PRIME"), the Florida Hurricane Catastrophe Fund, the Lottery Fund and a variety of smaller funds. As of September 30, 2009, the SBA managed 36 different funds, some established as direct requirements of Florida law and others pursuant to client-initiated trust agreements.

The SBA currently invests in eight asset classes: Domestic Equities, Foreign Equities (both developed and emerging markets), Fixed Income, High Yield, Private Equity, Strategic Investments, Real Estate and Cash.

The next page lists the September 30, 2009 market value of each SBA-managed fund. SBA's flagship management responsibility is to invest and safeguard assets of the FRS Pension Plan Trust Fund, one of the world's largest and financially healthiest public pension funds. The charts on pages 7 and 8 detail the SBA's long-term track record on investing the FRS Pension Plan.

The SBA has performed well relative to its investment objective, benchmarks/market indices and peers, in terms of both returns and costs. Notwithstanding the difficult post-2000 and 2007-08 market environments, the SBA has been able to significantly add value over and above the actuarial investment return requirement, helping to create one of the strongest funded ratios for state pension systems in the U.S. A 2008 Standard & Poors report found that the FRS Pension Plan was the 3rd best-funded among 50 of the nations largest plans and one of 5 with a surplus.

Finally, the SBA has important responsibilities that do not directly involve asset management. These roles include:

- Providing retirement planning support to about 700,000 active members of the Florida Retirement System through the *MyFRS Financial Guidance Program* (created under the 2000 PEORP legislation)
- Administering the Hurricane Catastrophe Fund (CAT Fund) and its associated programs
- Serving as an investment consultant to retirement programs administered by other state agencies, including the State of Florida Deferred Compensation Program and State University System Optional Retirement Program
- Managing the corporate affairs of the Inland Protection Financing Corporation and the Florida Water Pollution Control Financing Corporation
- Administering all debt service funds for bonds issued pursuant to the State Bond Act as well as serving as trustee and escrow agent for bonds issued by the Division of Bond Finance
- Providing administrative support for the Division of Bond Finance and the Florida Prepaid College Board Programs

A Board of Trustees comprised of Governor Charlie Crist as Chairman, Chief Financial Officer Alex Sink as Treasurer and Attorney General Bill McCollum as Secretary governs the SBA. The Trustees have ultimate authority and oversight for the SBA's overall strategy.

The Trustees delegate authority to the Executive Director/Chief Investment Officer, who serves at their discretion and is responsible for managing all investments, investment policy, operational and financial functions. The Executive Director/Chief Investment Officer manages approximately 160 professional and administrative support staff.

The Trustees appoint six members to serve on the Investment Advisory Council. The Investment Advisory Council provides independent oversight of the SBA's funds and major investment responsibilities. The Council meets on an ongoing basis to discuss general investment policies, opportunities and risks. The Trustees also appoint six members to serve on the Participant Local Government Advisory Council.

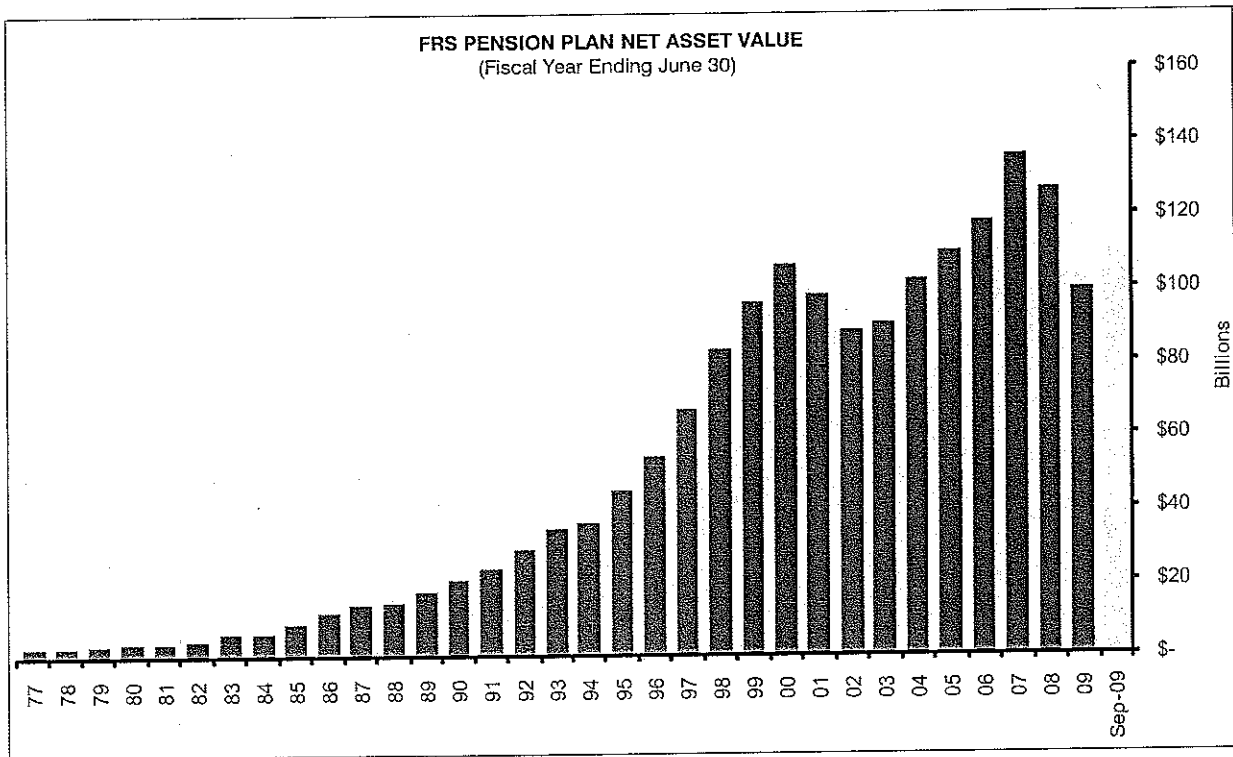
The SBA benefits from the oversight and guidance of these statutorily created bodies; the Investment Advisory Council, the Participant Local Government Advisory Council and the Florida Hurricane Catastrophe Fund Advisory Council. All are appointed by the Trustees and confirmed by the Florida Senate.

ASSETS UNDER MANAGEMENT

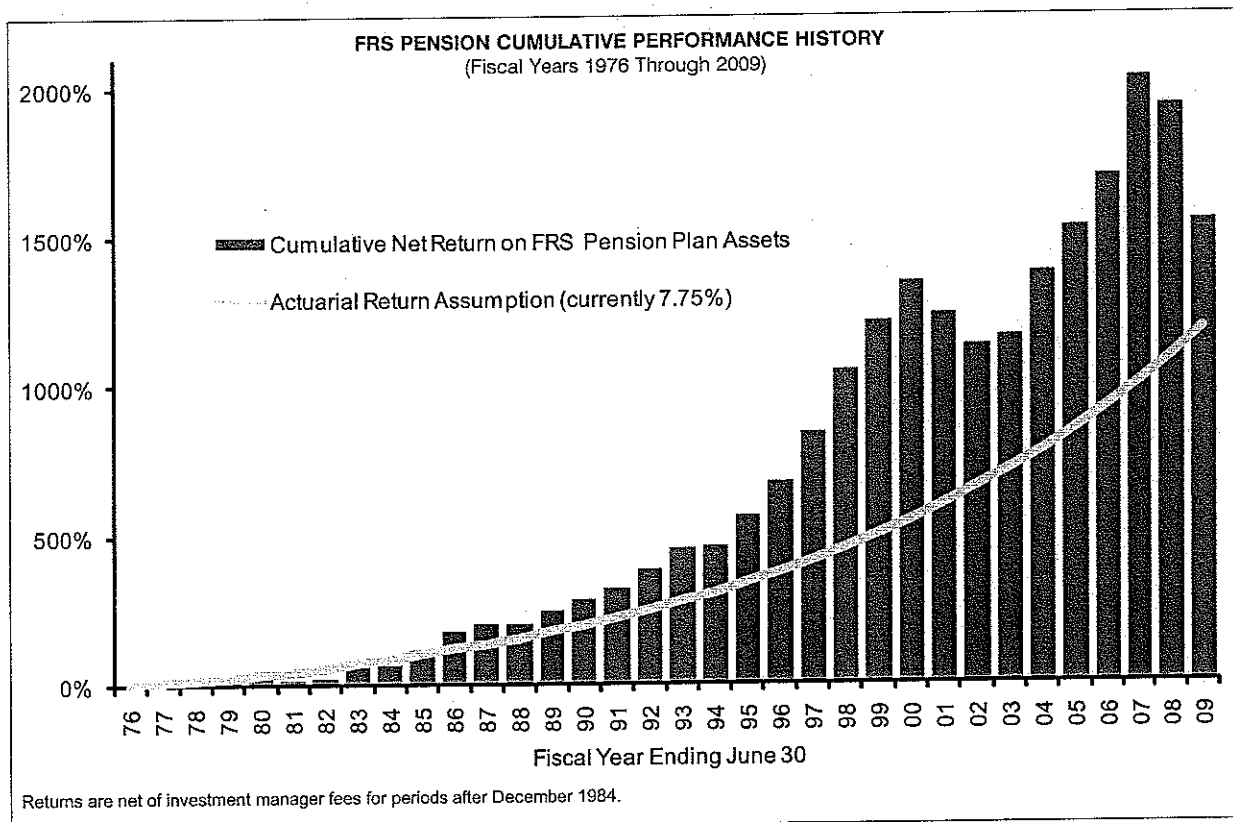
FLORIDA RETIREMENT SYSTEM (IN THOUSANDS)	September 30, 2009 MARKET VALUE	June 30, 2009 MARKET VALUE
FRS DB ASSET CLASSES		
DOMESTIC EQUITIES	\$40,810,500	\$35,144,917
FOREIGN EQUITIES	\$22,860,177	\$20,371,068
FIXED INCOME	\$28,397,619	\$25,993,943
HIGH YIELD	\$2,524,229	\$2,495,713
REAL ESTATE	\$7,362,582	\$7,779,556
PRIVATE EQUITY	\$3,761,486	\$3,588,200
STRATEGIC INVESTMENTS	\$3,834,792	\$3,353,971
CASH	\$499,182	\$854,513
TOTAL FRS DB	\$110,049,862	\$99,579,208
TOTAL FRS DC	\$4,612,719	\$4,076,398
LAWTON CHILES ENDOWMENT (IN THOUSANDS)		
LCEF ASSET CLASSES		
DOMESTIC EQUITIES	\$386,708	\$333,605
FOREIGN EQUITIES	\$88,398	\$74,757
FIXED INCOME	\$91,907	\$85,251
REAL ESTATE	\$0	\$0
TIPS	\$64,872	\$62,693
CASH	\$7,286	\$7,327
TOTAL	\$639,170	\$563,701
OTHER FUNDS (IN THOUSANDS)		
DEBT SERVICE NONESCROW	\$791,014	\$398,879
DEBT SERVICE ESCROW	\$1,135,268	\$1,166,555
GAS TAX	\$0	\$0
RETIREE HEALTH INSURANCE SUBSIDY	\$256,076	\$262,262
POLICE AND FIREFIGHTERS	\$61,184	\$205,847
FLORIDA ENDOWMENT FOR VOCATIONAL REHAB.	\$1,992	\$2,078
LOCAL GOVERNMENT INVESTMENT POOL	\$5,355,296	\$5,985,805
FUND B SURPLUS FUNDS TRUST FUND	\$285,285	\$279,844
DEPARTMENT OF THE LOTTERY	\$997,444	\$1,029,759
SBA ADMINISTRATIVE EXPENSE	\$42,048	\$45,859
PEORP ADMINISTRATIVE TRUST FUND	\$35,019	\$34,091
FLORIDA HURRICANE CATASTROPHE	\$3,585,829	\$3,080,862
FLORIDA HURRICANE CATASTROPHE FINANCING CORP.	\$4,332,531	\$4,632,954
FLORIDA PREPAID COLLEGE PROGRAM	\$184,168	\$189,980
BOND PROCEEDS	\$9,741	\$3,234
ARBITRAGE COMPLIANCE	\$2,271	\$2,226
REVENUE BOND FEE	\$2,218	\$1,469
INLAND PROTECTION FINANCING CORPORATION	\$1	\$1
BLIND SERVICES	\$2,053	\$2,049
MCKNIGHT EDUCATION FUND	\$1,264	\$1,354
SCRIPPS	\$102,354	\$111,582
FSU RESEARCH FOUNDATION	\$276	\$437
ICB PROGRAM	\$19,170	\$4,027
BURNHAM INSTITUTE	\$123,304	\$121,698
TORREY PINES INSTITUTE	\$18,745	\$18,520
PINELLAS SUN COAST TRANSIT AUTHORITY	\$43	\$42
SRI INTERNATIONAL	\$4,090	\$4,052
UNIVERSITY OF MIAMI	\$38,668	\$38,561
MAX PLANCK	\$67,308	\$67,140
OREGON HEALTH AND SCIENCE	\$27,374	\$47,259
CHARLES STARK DRAPER LABORATORY	\$5,098	\$8,092
WYNDCREST DD FLORIDA	\$13,000	na
PAYING BANK RECALLS	\$0	\$0
OTHER FUNDS TOTAL	\$17,500,133	\$17,746,521
ALL FUNDS	\$132,801,884	\$121,985,826

LONG-TERM TRACK RECORD

FRS PENSION PLAN



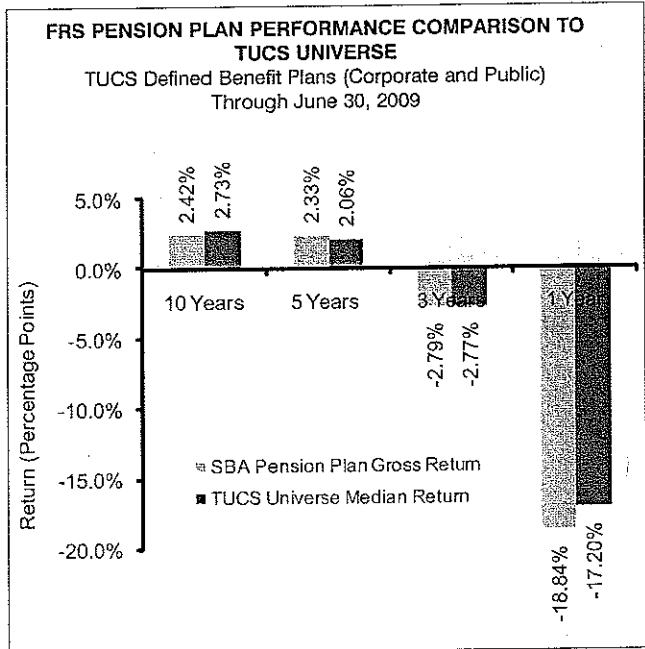
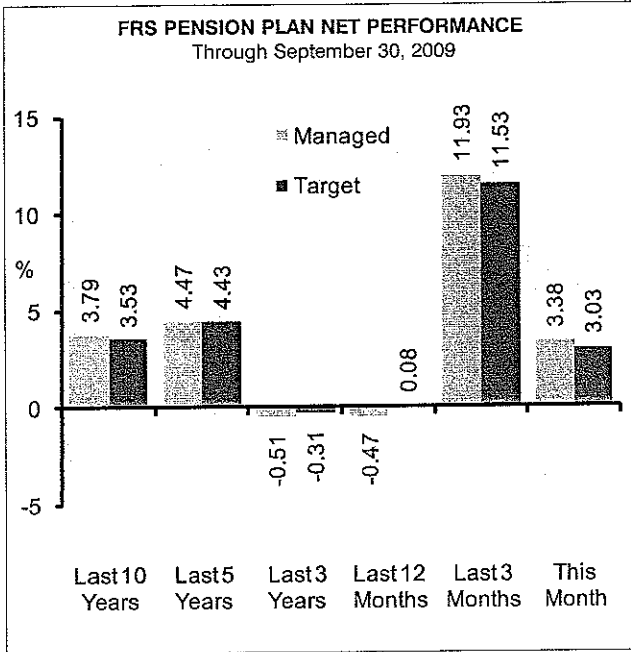
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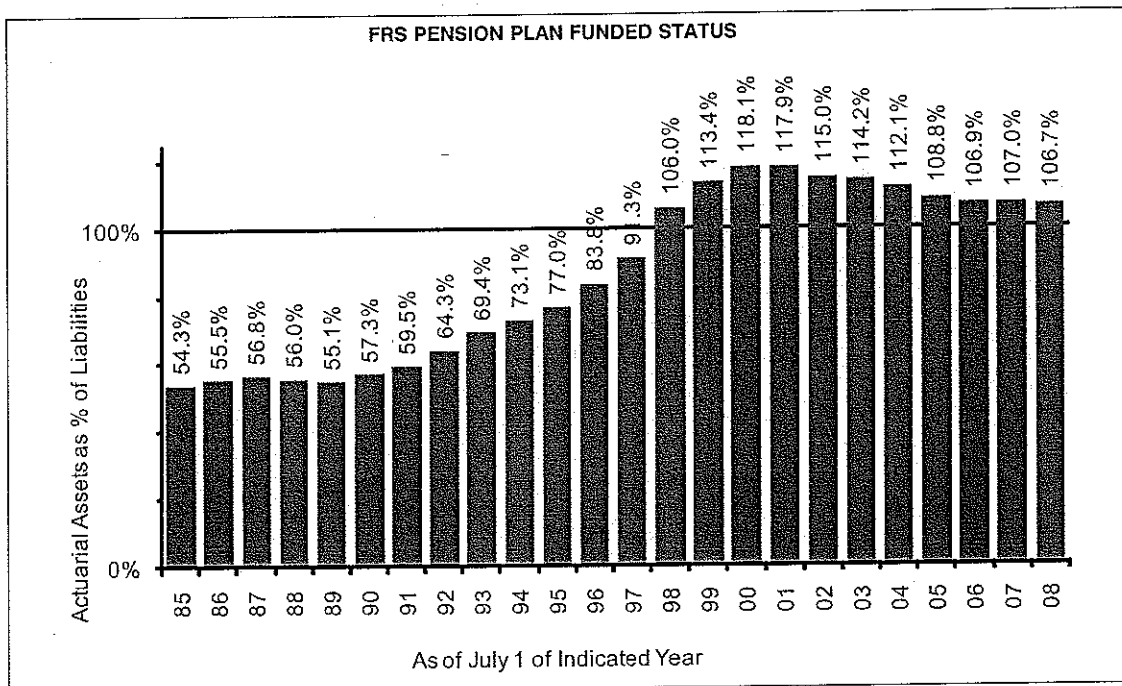
LONG-TERM TRACK RECORD

FRS PENSION PLAN

8



WILSHIRE'S TRUST UNIVERSE COMPARISON SERVICE ("TUCS") is a cooperative effort between Wilshire Associates and custodial organizations. Custodians submit asset positions and performance data to be pooled into universes of managed tax-exempt portfolios. According to Wilshire, TUCS is the most widely accepted benchmark for the performance of institutional assets, with assets in excess of \$1.8 trillion across 319 plan sponsors.



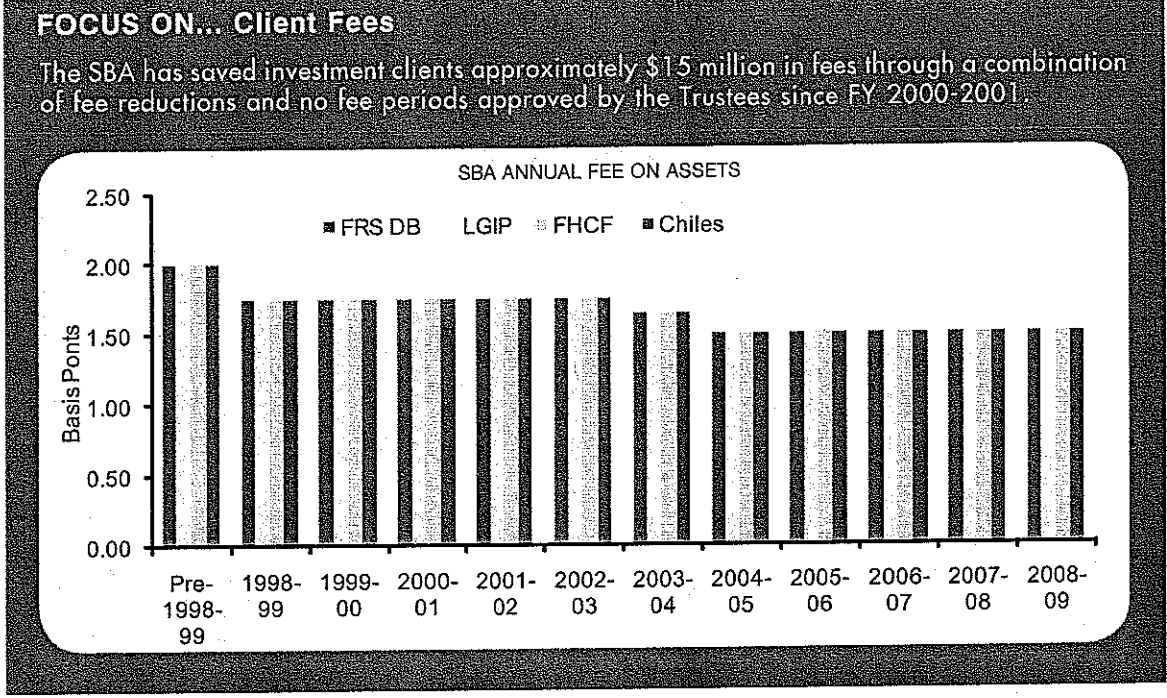
LEGAL *and* OPERATIONAL FRAMEWORK

The SBA's specialized responsibilities and fiduciary duties create a need for operational flexibility that has been recognized by the courts and the Florida Legislature.

- The Trustees annually authorize operating and capital expenditures as appropriate for the SBA to continue to provide prudent investment management services
- With a focus on a measurable bottom line, staff endeavors to maximize the return on investments while prudently managing risk, controlling costs, and performing duties ethically and with the highest professional standards
- Service and commodity procurement occurs under well-articulated competitive procedures

Staff has managed budgets and fee revenue conservatively, while recognizing that the SBA must have sufficient resources to successfully accomplish its mission. For example:

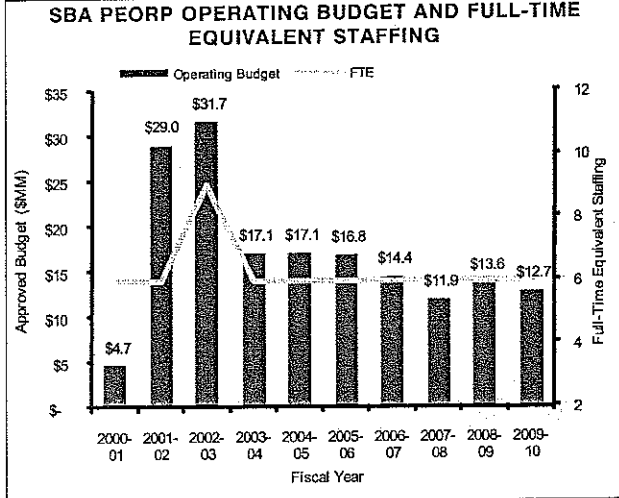
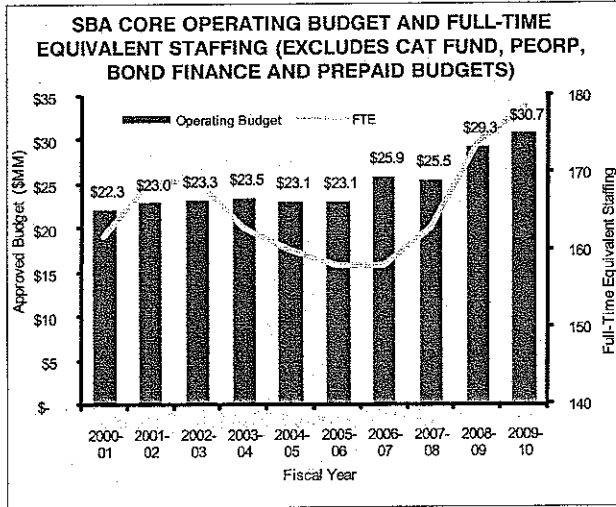
- The charts on page 10 illustrate that the SBA is a cost-effective provider of investment management services.
- The SBA's core operating budget is based on the fees charged to our clients, which for most investment management clients is currently 1.5 basis points on funds under management. In other words, clients are charged less than 2/100 of 1% for administrative overhead
- The SBA has continuously faced the challenge of recruiting and retaining seasoned investment professionals. To help meet the challenges, the Trustees approved a modest Incentive Compensation Plan effective July 1, 2005, for investment professionals and a targeted recruitment and retention program effective July 1, 2008.
- The Trustees approved 2008-09 and 2009-10 budgets that included resources and positions to enhance the SBA's compliance, risk management and overall control environment



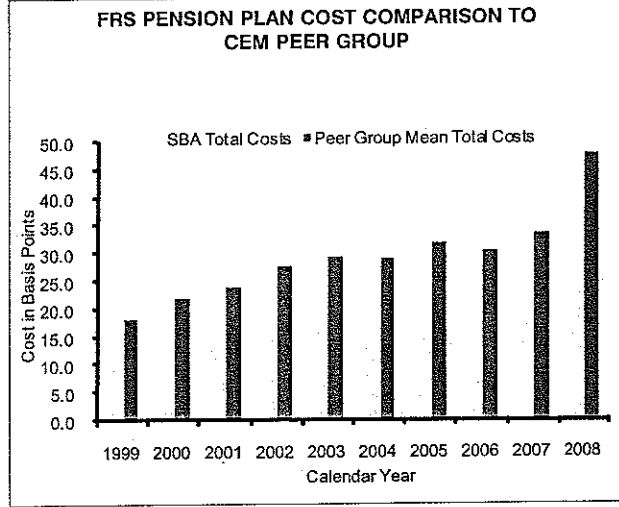
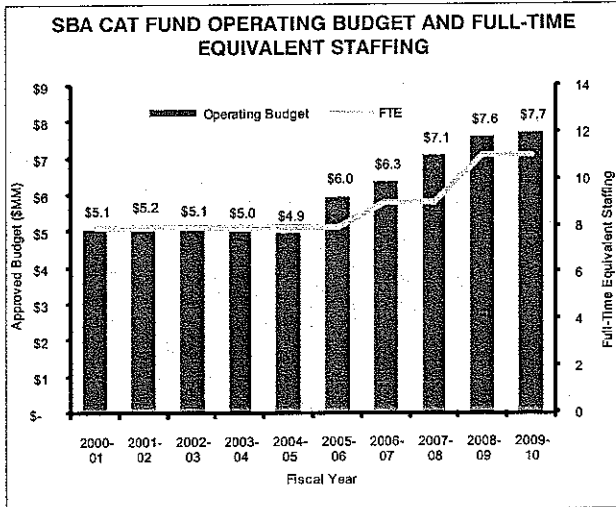
PRUDENT MANAGEMENT *of* BUDGET

STAFF HAS CONSERVATIVELY MANAGED BUDGETS, WHILE RECOGNIZING THAT WE MUST HAVE SUFFICIENT RESOURCES TO SUCCESSFULLY ACCOMPLISH OUR MISSION.

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*Year on year decreases reflect use of Forfeiture Account, per Florida Statute and IRS private letter ruling. The Public Employee Optional Retirement Program (PEORP) includes administering the FRS Investment Plan, FRS enrollments, and the MyFRS Financial Guidance Program.



Cost Effectiveness Measurement ("CEM") maintains a global database of detailed cost information provided by public and corporate pension plans. The SBA's 2008 CEM Peer Group included 17 U.S. plan sponsors with assets from \$28.5 billion to \$183.3 billion.

GOVERNANCE *and* ACCOUNTABILITY

The Trustees provide strong leadership, set high standards and hold the Executive Director and staff accountable. First, and foremost, the Board has statutory responsibility to invest assets and discharge its duties in accordance with the limitations on investments outlined in Section 215.47, Florida Statutes, and in compliance with the fiduciary standards of care contained in sections 121.4501(15), 215.44(2)(a) and 215.47(10), Florida Statutes.

As fiduciaries, the SBA is obliged to make investment decisions that are solely in the interest of participants and their beneficiaries (or other clients as applicable) and:

- For the exclusive purpose of providing benefits to participants and their beneficiaries (the SBA is prohibited from pursuing political or social agendas in its investment decisions)
- With the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (investment decisions are made from the perspective of subject-matter experts, not merely as well-intentioned persons acting in good faith)
- By diversifying the investments of the plan(s)

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The Board establishes broad policy guidelines, principally through formally adopted Investment Policy Statements or similar documents. It delegates to the Executive Director administrative and investment authority, within the statutory limitations and rules, to manage the investment of assets on a day-to-day basis.

To ensure accountability, and consistent with the importance of its mission, the SBA is subject to oversight by a variety of bodies and operates under well defined and documented internal policies and guidelines.

Statutorily created in June 1983, a six-member Investment Advisory Council (IAC) is appointed by the Board and confirmed by the Florida Senate. The IAC meets quarterly to review investment performance, economic conditions, and investment policy and strategy. Investment Policy Statements are reviewed by the IAC prior to submission to the Trustees.

The 2008 legislature established a six-member Participant Local Government Advisory Council (PLGAC), appointed by the Board and subject to confirmation by the Senate. The purpose of the PLGAC is to review the administration of the Florida PRIME and make recommendations to the Trustees.

FOCUS ON... Corporate Governance

The SBA plays an active role in supporting sound governance of corporations, both domestic and foreign. Through proxy voting and other actions, the SBA is working to encourage companies to adhere to high ethical standards and industry best practices. The SBA votes on approximately 3,600 Corporate Proxies annually, participates as a member of the International Corporate Governance Network (ICGN), and Council of Institutional Investors (CII), participates in securities litigation and actively pursues Corporate Governance reforms.

The SBA's objectives for strengthening corporate governance at public companies include establishing independent boards, performance-based executive compensation, accurate accounting and auditing practices, and transparent board procedures. Without question, we believe that fostering better corporate governance enhances shareholder value and ultimately supports our long-term investment objectives.

The Trustees appoint a three-member Audit Committee to serve as an independent and objective party to monitor SBA's processes for financial reporting, internal controls, risk assessment and compliance and to review and appraise the audit efforts of SBA's independent auditors and Office of Internal Audit.

The SBA is subject to audit by two external legislative entities: the Auditor General and the Office of Program Policy Analysis and Government Accountability (OPPAGA). The former executes financial audits and the latter conducts performance reviews. In addition, the SBA may engage with outside audit firms as needed.

The Board directs the Executive Director and Chief Investment Officer to coordinate the preparation of quarterly reports using investment returns calculated by an independent third party. The Executive Director also provides the Board with a variety of formal periodic reports, including:

- An annual investment report of the SBA and the FRS
- Monthly and quarterly detailed reports on performance and investment actions taken
- Special investment reports pursuant to law

Protecting *entrusted* ASSETS

Protecting Beneficiaries

As defined in Webster's Dictionary, fiduciary means "held or holding in trust for another." The SBA's relationship with the beneficiaries of the 36 different funds that we manage is built on a foundation of trust, performance and integrity.

Investment Protection Principles

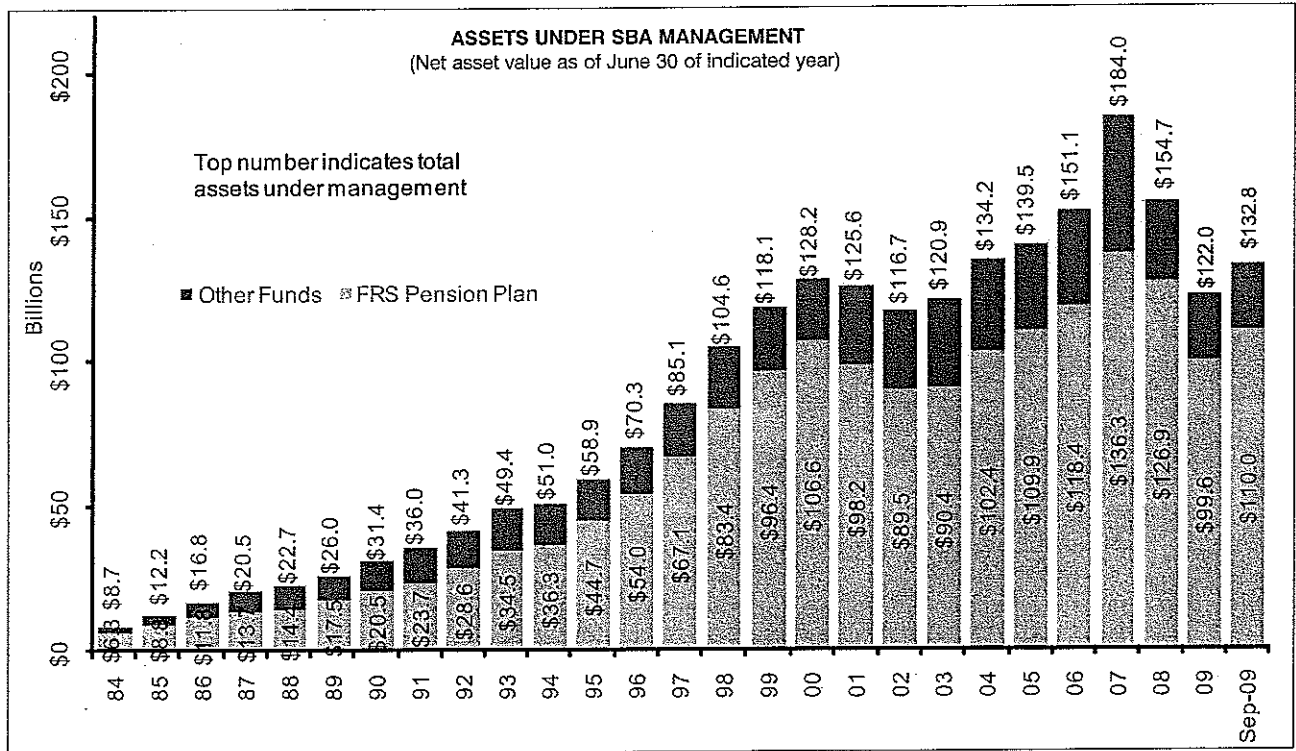
The SBA's Investment Protection Principles (IPP) are founded upon the simple premise of ensuring the soundness and integrity of the investment and trust management services we provide. The broker-dealers we retain are subject to a stringent set of standards regarding analyst compensation and compensation reporting.

Eliminating Conflicts of Interest

Also under the IPP, the investment management firms we retain must follow guidelines with respect to:

- > Client relationship disclosure and confidentiality
- > Compensation methods disclosure
- > Commission reporting
- > Relationships with affiliate companies
- > Integrity and quality of accounting and financial data
- > Corporate governance policy review

SBA staff is subject to a stringent Personal Investment Activities Policy.





OVERVIEW

The Florida PRIME Investment Pool, more formally called the Local Government Surplus Funds Trust Fund, was created by the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes). The purpose of Florida PRIME, as expressed in Florida law is "to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of government, based on the principals of investor protection, mandated transparency, and proper governance, with the goal of reducing the need for imposing additional taxes." The SBA has operated Florida PRIME (formerly known as the Local Government Investment Pool) since January 1982.

The SBA is charged with the powers and duties to administer and invest the Florida PRIME, in accordance with the statutory fiduciary standards of care as defined in Section 215.47(9), Florida Statutes. The SBA has contracted with Federated Investors, Inc. to provide investment advisory services for Florida PRIME.

During 2007, new guidelines were adopted for Florida PRIME, allowing it to secure an AAAM rating from Standard & Poor's, the highest rating possible for a governmental money-market fund. The benchmark is the Standard & Poor's U.S. AAA & AA Rated GIP All 30 Day Net Yield Index. The SBA contracted with Federated on March 3, 2008, to invest Florida PRIME.

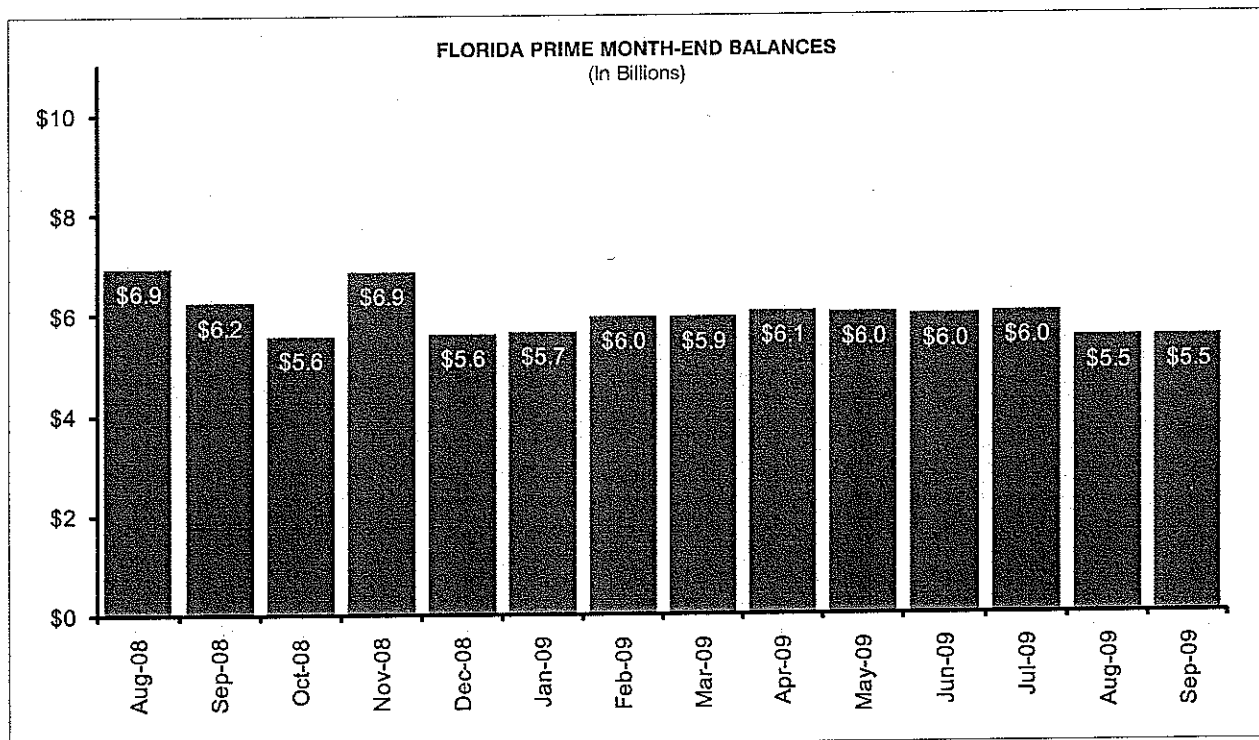
Florida PRIME is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code.

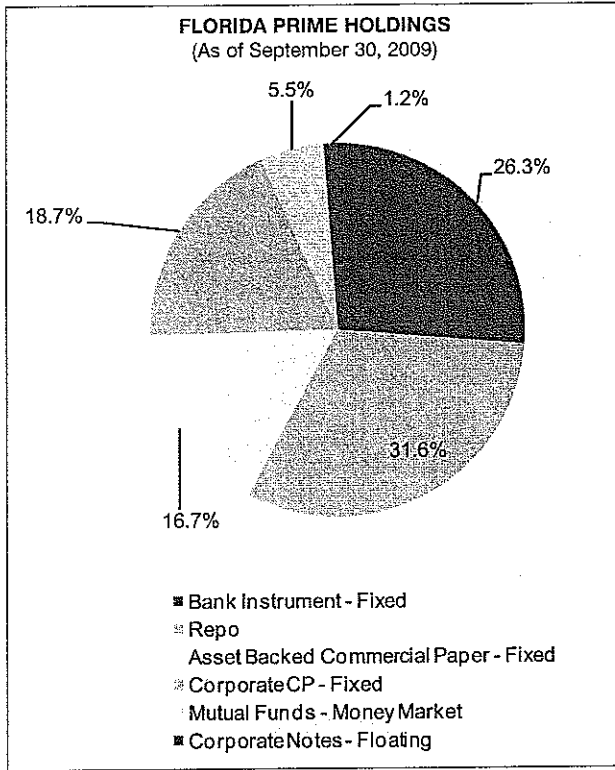
OBJECTIVES AND GUIDELINES

The investment objectives for Florida PRIME, in priority order, are safety, liquidity, and competitive returns with minimization of risks. Investment performance of Florida PRIME will be evaluated on a monthly basis against the Standard & Poor's U.S. AAA & AA Rated GIP All 30 Day Net Yield Index.

The Florida PRIME's assets will be invested in short-term, high-quality fixed-income securities.

Liquidity is available on a daily basis through online account access.

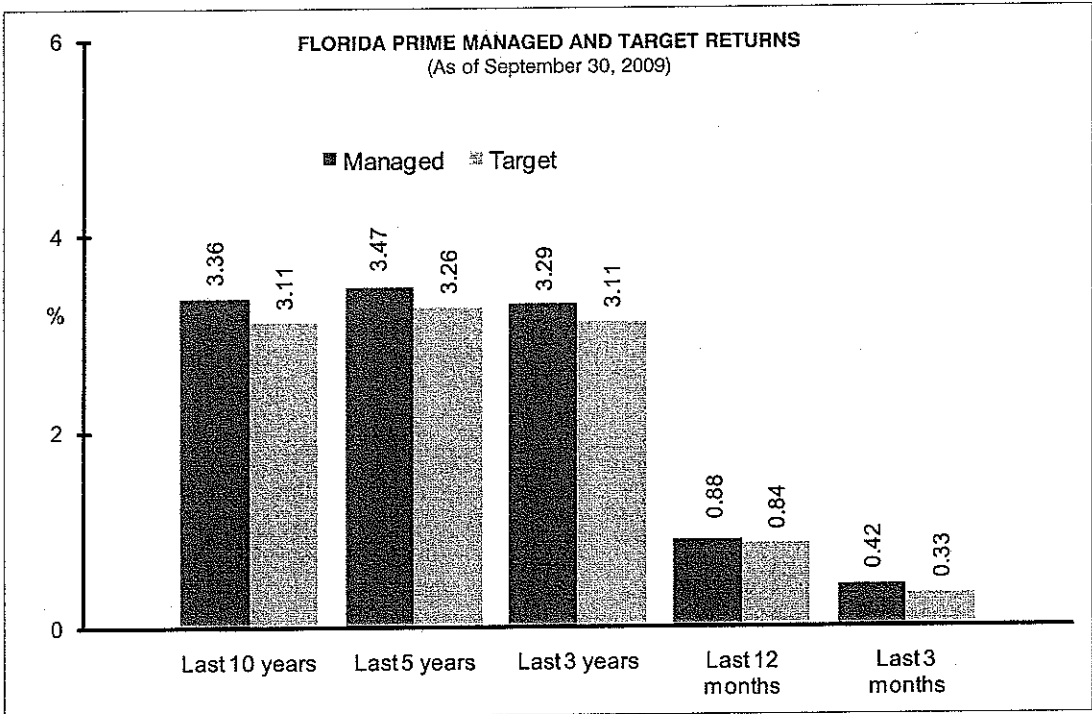




HISTORY OF THE LGIP, FLORIDA PRIME LIQUIDITY CEILING
December 5, 2007 through December 23, 2008

		The greater of:*
Initially Imposed	12/05/07	15% or \$2.0m
	01/18/08	37% or \$4.0m
	05/15/08	50% or \$8.0m
	05/29/08	50% or \$12.0m
	09/25/08	65% or \$12.0m
	12/12/08	74% or \$12.0m
Fully Removed	12/23/08	100% n/a

*Applied to 12/5/07 opening balances



FUND B SURPLUS FUNDS TRUST FUND

OVERVIEW

Fund B was created by the Florida Legislature effective June 1, 2008 (Section 218.421, Florida Statutes). The SBA is charged with the powers and duties to administer and invest Fund B. The SBA has contracted with Federated Investors, Inc. to provide investment advisory services to Fund B.

Fund B is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code. As of October 2009, approximately 75% of the original principal has been returned to participants in Fund B.

OBJECTIVES AND GUIDELINES

Fund B's primary objective is to maximize the present value of distributions from Fund B.

Fund B principally consists of Segregated Securities, which are securities originally purchased for the Iqip, Florida PRIME that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization (NRSRO) that provides the Iqip's, Florida PRIME AAAm rating.

Participants cannot make discretionary deposits into or withdrawals from Fund B.

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FUND B DETAILED HOLDINGS (As of October 22, 2009)

Security Name	Type	Par	Amort Cost	Mkt Value
Axon Financial Funding LLC,	VARIABLE RATE COMMERCIAL PAPER	\$ 160,153,791	\$ 160,149,787	\$ 56,432,850
Dreyfus Government Cash Management Fund	OVERNIGHT MUTUAL FUND	\$ 335,896	\$ 335,896	\$ 335,896
Florida East Funding LLC,	VARIABLE RATE TERM NOTE	\$ 119,810,334	\$ 119,810,334	\$ 68,800,377
Florida West Funding LLC,	VARIABLE RATE TERM NOTE	\$ 253,422,056	\$ 253,422,056	\$ 112,621,444
Issuer Entity LLC (Ottimo),	VARIABLE RATE COMMERCIAL PAPER	\$ 146,880,627	\$ 146,880,627	\$ 39,340,829
		\$ 680,602,704	\$ 680,598,701	\$ 277,531,396

FUND B SURPLUS FUNDS TRUST FUND

FUND B DISTRIBUTIONS

	Distributions to Participants	Cumulative Distributions	Participant Principal	Proportion of Original Principal Returned
12/05/07			\$2,009,451,941	0.0%
01/18/08	\$50,000,000	\$50,000,000	\$1,959,451,941	2.5%
02/11/08	\$518,000,000	\$568,000,000	\$1,441,451,941	28.3%
03/18/08	\$210,550,000	\$778,550,000	\$1,230,901,941	38.7%
04/21/08	\$106,000,000	\$884,550,000	\$1,124,901,941	44.0%
06/19/08	\$291,500,000	\$1,176,050,000	\$833,401,941	58.5%
06/26/08	\$150,500,000	\$1,326,550,000	\$682,901,941	66.0%
07/07/08	\$34,700,000	\$1,361,250,000	\$648,201,941	67.7%
08/06/08	\$10,400,000	\$1,371,650,000	\$637,801,941	68.3%
09/05/08	\$9,300,000	\$1,380,950,000	\$628,501,941	68.7%
10/07/08	\$11,750,000	\$1,392,700,000	\$616,751,941	69.3%
11/07/08	\$8,700,000	\$1,401,400,000	\$608,051,941	69.7%
12/04/08	\$20,500,000	\$1,421,900,000	\$587,551,941	70.8%
01/09/09	\$7,900,000	\$1,429,800,000	\$579,651,941	71.2%
02/09/09	\$6,800,000	\$1,436,600,000	\$572,851,941	71.5%
03/09/09	\$5,800,000	\$1,442,400,000	\$567,051,941	71.8%
04/09/09	\$6,600,000	\$1,449,000,000	\$560,451,941	72.1%
05/08/09	\$8,200,000	\$1,457,200,000	\$552,251,941	72.5%
06/08/09	\$7,500,000	\$1,464,700,000	\$544,751,941	72.9%
07/09/09	\$7,100,000	\$1,471,800,000	\$537,651,941	73.2%
08/07/09	\$8,150,000	\$1,479,950,000	\$529,501,941	73.6%
09/04/09	\$10,000,000	\$1,489,950,000	\$519,501,941	74.1%
10/07/09	\$8,050,000	\$1,498,000,000	\$511,451,941	74.5%

THE FLORIDA TECHNOLOGY *and* GROWTH INVESTMENT INITIATIVE

OBJECTIVE:
To invest in "Florida technology and growth businesses"

THE \$250 MILLION FLORIDA GROWTH FUND IS MANAGED BY HAMILTON LANE. INVESTMENTS MAY INCLUDE, FLORIDA-BASED AND/OR FOCUSED PRIVATE EQUITY PARTNERSHIPS AND DIRECT CO-INVESTMENTS

PRIVATE EQUITY PARTNERSHIPS

CAPITAL DEPLOYMENT

- Target number of partnerships: 15-20
- Target commitment size: \$10-20 million

PORTFOLIO CONSTRUCTION

- Focus on Venture Capital, Growth Equity and Small to Mid-Sized Buyouts
- Technology (space, computer)
- Aerospace and aviation
- Renewable energy
- Medical and Life Sciences
- Businesses domiciled in Florida
- Businesses that have demonstrable, material Florida operational presence
- Seek differentiated return streams
- Develop and maintain key general partner relationships

DIRECT CO-INVESTMENTS

CAPITAL DEPLOYMENT

- Target number of companies: 20-25
- Average investment size: \$5-15 million

PORTFOLIO CONSTRUCTION

- companies headquartered in, or conducting a significant portion of its respective business in Florida

DEAL SOURCING

- Hamilton Lane will use several avenues for sourcing potential co-investments in Florida companies for the Fund
- Active outreach program
- Contact all SBA partners about co-investment component
- Website
- Conference participation
- Leverage Hamilton Lane's national Private Equity network
- Active calling program with all Florida general partners and sponsors

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CURRENT STATUS:

- Hamilton Lane hired a new Vice President with extensive experience as venture capitalist and entrepreneur to lead a Florida-based team
- Hamilton Lane plans to open offices in Ft. Lauderdale and Orlando

FUNDS

Total number of opportunities screened	Total number of opportunities currently in diligence process	Target Sectors
25	16	Technology, Healthcare, Alternative Energy

CO-INVESTMENTS

Potential opportunities screened	Representative locations include:
54	Miami, Tampa, Orlando, Boca Raton

OUTREACH/SOURCING ACTIVITY

- Hamilton Lane has held a series of outreach meetings in the following locations: Gainesville, Orlando, Tampa, St. Petersburg and Jacksonville

MEETINGS BY TYPE

Universities	Service Providers	General Partners	Potential Co-Investments
3	8	6	2

SBA CODE OF ETHICS

The trusteeship and investment management of public funds demands the highest degree of confidence from beneficiaries of the funds and the public in general. Employees of the SBA hold a public trust that obligates them to honesty and integrity in fulfilling the responsibilities to which they are appointed. Paramount in that trust is the principle that public employment may not be used for personal gain or private advantage. The citizens of the State of Florida expect SBA employees to perform their public responsibilities in accordance with the highest ethical and moral standards and to conduct the business of the SBA in a manner that advances the public's interest.

- Employees shall act with honor and integrity in all professional relationships and shall be honest and objective in all SBA business transactions and negotiations.
- Employees shall maintain a duty of loyalty to our beneficiaries and act in the best interests and for the exclusive benefit of our clients and beneficiaries.
- Employees shall avoid personal, social, employment or business activities and relationships that reflect adversely on the individual's objectivity, create conflicts of interest (including those related to the proper execution and management of investment decisions), impair their ability to make impartial decisions, or otherwise interfere with the proper performance of official duties. Further, employees who are classified as "Affected Persons" under the SBA Personal Investment Activity policy (#10-041) shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the SBA.
- Employees shall have an affirmative duty to promptly disclose and cure conflicts of interest or ethical improprieties. Further, employees who are classified as "Affected Persons" under the SBA Personal Investment Activity Policy (#10-041) shall disclose any material interest (i.e., \$20,000 or more) in Covered Securities (as defined in policy #10-041) in financial institutions or investment organizations with which they conduct business on behalf of the SBA.
- Employees shall not use the prestige or influence of their position or SBA resources to obtain personal, financial or political gain or private advantage for themselves, their family or an organization with which they are associated.
- Employees shall not seek or accept gifts, money, preferential treatment or property that would influence, or appear to influence, official duties.
- Employees shall exercise prudence and integrity in the management of funds in their custody and in all financial transactions.
- Employees shall use care and discretion in the handling of confidential information and shall not disclose or use confidential information for personal gain or private advantage.
- Employees shall be familiar with and comply with SBA policies and local, state and federal laws that affect the SBA and its employees and shall not knowingly be a party to, or condone, any illegal or improper activity.
- Employees shall not falsify or fail to record proper entries on any books or records of the SBA, or knowingly sign or permit the issuance of any statement or report which contains any misstatement or which omits any material fact.
- Employees shall abide by approved practices and recommended standards set forth by professional associations and standard setting organizations.
- SBA management and staff have an affirmative duty to immediately escalate and report directly to either the Executive Director, the Inspector General, or the General Counsel, employee or contractual party fraud or misconduct (whether actual or suspected), employee or contractual party material error that adversely affects SBA or client assets or interests, misrepresentation or omission of material information in internal and external reporting and client communications, and violations of laws, rules or SBA policies. The Inspector General shall investigate any report upon first being made aware of the alleged fraud, misconduct, misrepresentation, error or omission under this provision.

TRUSTEES

Governor Charlie Crist, Chairman
Chief Financial Officer Alex Sink, Treasurer
Attorney General Bill McCollum, Secretary

**EXECUTIVE DIRECTOR &
CHIEF INVESTMENT OFFICER**

Ash Williams

INVESTMENT ADVISORY COUNCIL

Robert Konrad, Chair
John H. Hill Jr., Vice Chair
Beth Ayers McCague
Robert H. Gidel
John Jaeb
David J. Grain

PARTICIPANT LOCAL GOVERNMENT ADVISORY COUNCIL

MaryEllen Elia, Chair
Patsy Heffner, Vice Chair
John Mark Peterson
Daniel Wolfson
Roger B. Wishner
Karen Nicolai

**STATE BOARD OF
ADMINISTRATION**

**1801 Hermitage Boulevard, Suite 100
Tallahassee, Florida 32308
(850) 488-4406
www.sbafla.com**

Agenda Item 4

At this time, there is no other Committee business.