



## SELECTED PROCESSES OF DEPARTMENT OF HEALTH'S LEASING OFFICE

Report # R-1314DOH-010 • September 2, 2014

### ***Purpose of this project:***

We wanted to review the impact nominal leases has on the Department of Health (Department). Nominal leases include but are not limited to facilities that are owned or leased by a county or a county health department (CHD), in which Department employees work. We also wanted to determine whether controls were in place to ensure that facilities which are managed and/or owned by the Department are used effectively and efficiently. Finally, we wanted to determine whether controls were in place related to occupancy leases. The Central Office's Leasing Office (Leasing Office) considers occupancy leases to be those agreements where the Department leases to another entity a portion of space that the Department owns, or sub-leases to another entity a portion of space that the Department leases from another entity.

### ***What was reviewed:***

We reviewed and evaluated the current process as relates to nominal leases, facilities which are managed and/or owned by the Department, and occupancy leases.

## FINDINGS AND RECOMMENDATIONS

The following findings reflect areas that should be addressed by management to improve accountability of leasing processes throughout the Department:

### FINDING 1

When electing to use county procedures to procure leases, counties used state and federal funds that passed through the Department.

- CHDs are allowed to obtain leases by electing to follow either state leasing procedures or county leasing procedures, based on an Attorney General Opinion (AGO 74-381, December 20, 1974) (Opinion).
- The Opinion explained, "If the counties negotiate the leases for the [CHDs] and are funding the leases out of budgeted and appropriated **county funds, other than the trust fund moneys**, then [the Department of Management Services] would not be authorized or required to approve such leases..."
- We found several instances where CHDs elected to use county rules to obtain leases that were paid with state or federal funds.
- We identified a number of issues when CHDs used county procedures but paid for the leases with state or federal dollars, including:
  - A county entered into a lease on behalf of a CHD for a location the CHD did not occupy. There was no lease agreement for the facility the CHD did occupy.
  - A county entered into an open-ended lease with a CHD that resulted in undeterminable future annual increases in lease payments.
  - A county did not require the amount of square footage be enumerated in the lease document entered into on behalf of a CHD.

## WE RECOMMEND

The Bureau of General Services' Leasing Office should ensure that where CHDs elect to use county procedures to procure lease space at a cost, CHDs are aware county funds must be used to pay for such leases. In order to help CHDs make their decision of which method to use (state procedures vs. county procedures), inform CHDs that where state procedures and state funds are used, lease documents must be in compliance with Chapter 255, *Florida Statutes*.

### FINDING 2

Clarification and uniform guidance of what is expected of CHDs to report on Attachment IV to the State/County Contract is needed.

- The only current documentation available to the Leasing Office, and therefore the Department as a whole, of arrangements where counties either provide county-owned space for the CHD or where the county or CHD has entered into a lease for space is to have that information reported annually on Attachment IV of the State/County Contract between DOH and the respective county.
- We found that there was not sufficient guidance available to CHDs from Central Office to adequately and uniformly complete Attachment IV. Some guidance conflicted with other guidance. The Office of Budget & Revenue Management provides a template for the State/County Contract and limited written guidance for developing the State/County contract in a *Core Contract Management Handbook*. A training module in TRAIN Florida is also available.
- The result of CHDs' reporting because of existing guidance was:
  - Different counties reporting varied types of information.
  - Some counties included the Leasing Office's "Private" leases, intergovernmental leases and DMS leases.
  - The dollar value of leases entered into by CHDs, Boards of County Commissioners, cities, school boards on behalf of CHDs was not determinable.
  - The Department did not have knowledge of all sites in which DOH employees work and clients are seen.
- While CHDs may be allowed to use county leasing procedures rather than state leasing procedures, it should not preclude the Leasing Office from acquiring pertinent data so that Central Office has knowledge and that lease documents are in good order.
- Under the Leasing Office's procedures, the Department of Management Services (DMS) requires disclosure of ownership, including whether any public officials or employees hold any ownership interest in the facility. There is no uniform disclosure when using county procedures. Central Office would have no knowledge of any such relationship when a facility is leased using county processes.

## WE RECOMMEND

- ❖ The Office of Budget & Revenue Management, which provides administrative support for coordinating the State/County Contract, should provide uniform and clear instructions so that CHD staff can prepare and provide uniform information on Attachment IV.
- ❖ The Office of Budget & Revenue Management should also work with the Leasing Office to determine what information should be included on Attachment IV so that the Leasing Office can easily acquire important data regarding the many different facilities in which DOH employees work and clients are seen.
- ❖ The Bureau of General Services should require CHDs to provide copies of leases to the Leasing Office regarding all instances of facilities occupied by CHDs, including facilities that counties, cities, and school boards privately lease for the benefit of the CHDs. Public disclosure of any ownership interest by public officials and employees would also be helpful.

## FINDING 3

The rental revenue received from space subleased by DOH to other entities was incorrectly coded in FLAIR, masking revenue received.

- A revenue General Ledger Code, 68500-*Rents and Royalties–Non-State*, was established to record and recognize “Revenues earned for granting occupancy or use of property to a non-state entity”. It was not being used anywhere within the Department.
- Some Children’s Medical Services (CMS) area offices credited receipts from these arrangements to offset expenditures related to operation of the building. CMS area offices routinely used General Ledger Code 71100-*Expenditures, Current*. It may be appropriate to offset lease expenditures where a portion of space leased by DOH is sub-leased to another entity. But where the Department owns the facility, any receipts from leasing out a portion of the space should be credited to General Ledger Code 68500-*Rents and Royalties–Non-State*.
- Motivations to code revenues to an expenditure account may include avoidance of the “service charge of 8 percent...from all income of a revenue nature deposited in all trust funds...[that] shall be deposited in the General Revenue Fund,” authorized in Section 215.20(1), *Florida Statutes*, and to re-establish spending authority.
- CMS’s Internal Operating Procedure (IOP) 145-016-10, *Leasing and Sub-Leasing of Space* discussed leasing a portion of space in a DOH, CMS **state-owned facility** to other lessors. The IOP directs CMS area offices to, “[d]etermine how the revenue will offset [CMS Network] fixed cost expenditures related to annual building maintenance and daily operation of the building.” This language assists CMS area offices to offset the expenditure. Further, the IOP did not address how to code receipts in a CMS **leased facility** where a portion of the leased facility is sub-leased.

## WE RECOMMEND

- ❖ The Bureau of CMS Network Administration should work with Office of Budget & Revenue Management staff to determine appropriate coding of revenue receipts from leases, and then advise CMS area offices accordingly.
- ❖ The Bureau of CMS Network Administration should revise IOP 145-016-10, *Leasing and Sub-Leasing of Space*, to advise CMS area offices how to record the receipt of any rental revenue in accordance with proper accounting procedures. The IOP should address the leasing of space in state-owned facilities and also the subleasing of a portion of leased facilities.

## FINDING 4

Staff other than the person responsible for leases were approving invoices for payment of leases at DOH – Miami-Dade.

- DOH - Miami-Dade management misinterpreted guidance from Division of Administration regarding appropriate approval of invoices for contracts that are not in Department of Financial Services’ (DFS) Florida Accountability Contract Tracking System (FACTS). DOH - Miami-Dade management assigned various persons to approve lease invoices for payment that were not directly associated with leases. Those persons were not all associated with the lease for which they were approving payment and did not have sufficient knowledge about leases to certify that services were received. The guidance from Division of Administration explained, “the certification statement [of] **the person overseeing the contract** must be placed...on the invoice.”

## WE RECOMMEND

**DOH – Miami-Dade should designate one person, who is directly involved and knowledgeable of the leases, to approve lease payments for DOH – Miami-Dade.**

## FINDING 5

CMS area office staff was holding checks received for rental revenue.

- CMS area office staff was holding checks received from entities leasing portions of a Department-owned building for several months before depositing. The checks were held until a utility bill was received in an amount larger than the revenue received from the leases. DOHP 57-07-13, *Cash Handling*, requires over-the-counter receipts to be deposited, "by the close of business (COB) the next business day," and "receipts received through the mail within two business days."

## WE RECOMMEND

The Bureau of CMS Network Administration should advise CMS area office staff of DOHP 57-07-13, *Cash Handling*, requirements for depositing all receipts timely.

## SUPPLEMENTAL INFORMATION

Section 20.055, *Florida Statutes*, charges the Department's Office of Inspector General with responsibility to provide a central point for coordination of activities that promote accountability, integrity and efficiency in government.

The review was conducted by Mark H. Boehmer, CPA, Senior Management Analyst II, under the supervision of Michael J. Bennett, CIA, Director of Auditing.

Our methodology included interviews with management and staff, reviewing applicable laws, rules, policies and procedures, leases, and related payment data.

This project was not an audit, as industry-established auditing standards were not applied. Internal Audit Unit procedures for the performance of reviews were followed and used during this project.

We want to thank management and staff in the Department's Division of Administration, especially the Bureau of General Services' Leasing Office, and staff from the CHDs and CMS area offices contacted for their cooperation and assistance during this project.

## CONTACT INFORMATION

Copies of final reports may be found on our website at <http://www.floridahealth.gov/public-health-in-your-life/administrative-functions/inspector-general/internal-audit.html>

Questions or comments related to the information provided in this report should be addressed to the Director of Auditing, Florida Department of Health by the following means:

**Address:** 4052 Bald Cypress Way, Bin A03,  
Tallahassee, FL 32399

**Email:** [inspectorgeneral@flhealth.gov](mailto:inspectorgeneral@flhealth.gov)

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**APPENDIX A: MANAGEMENT RESPONSE**

	Recommendation	Management Response
1	<p>The Bureau of General Services' (BGS) Leasing Office should ensure that where CHDs elect to use county procedures to procure lease space at a cost, CHDs are aware county funds must be used to pay for such leases. In order to help CHDs make their decision of which method to use (state procedures vs. county procedures), inform CHDs that where state procedures and state funds are used, lease documents must be in compliance with Chapter 255, <i>Florida Statutes</i>.</p>	<p>We concur.</p> <p>BGS currently follows the Florida Attorney General Legal Opinion (AGO 74-381) which allows for "county public health units" to choose the method of lease procurement – either the state-method, which flows through BGS and the Department of Management Services or whatever process/procedure the local county government has in place. BGS will work with Statewide Services and the CHDs to make them aware that when electing to use county procedures to procure leased space, the CHDs must use county funds to cover any lease costs. Additionally, when state procedures are used, lease documents must be in compliance with Chapter 255, <i>Florida Statutes</i>.</p> <p><b>Contact:</b> Michael C. Graddy, Support Services Administrator</p> <p><b>Anticipated Completion Date:</b> December 15, 2014</p>
2a	<p>The Office of Budget &amp; Revenue Management, which provides administrative support for coordinating the State/County Contract, should provide uniform and clear instructions so that CHD staff can prepare and provide uniform information on Attachment IV.</p>	<p>We concur.</p> <p>The Office of Budget &amp; Revenue Management will update the instructions for preparing the Attachment IV.</p> <p><b>Contact:</b> Beth Benton, Office of Budget &amp; Revenue Management</p> <p><b>Anticipated Completion Date:</b> December 31, 2014</p>
2b	<p>The Office of Budget &amp; Revenue Management should also work with the Leasing Office to determine what information should be included on Attachment IV so that the Leasing Office can easily acquire important data regarding the many different facilities in which DOH employees work and clients are seen.</p>	<p>We concur.</p> <p>The Office of Budget &amp; Revenue Management will work with the Leasing Office to update the Attachment IV, in order to acquire important data regarding to facilities that include DOH employees and where clients receive services.</p> <p><b>Contact:</b> Beth Benton, Office of Budget &amp; Revenue Management</p> <p><b>Anticipated Completion Date:</b> December 31, 2014</p>

<p>2c</p>	<p>The Bureau of General Services should require CHDs to provide copies of leases to the Leasing Office regarding all instances of facilities occupied by CHDs, including facilities that counties, cities, and school boards privately lease for the benefit of the CHDs. Public disclosure of any ownership interest by public officials and employees would also be helpful.</p>	<p>We concur.</p> <p>BGS will develop a procedure to request and maintain copies of all leases where facilities are occupied by CHDs, including facilities that counties, cities, and school boards privately lease for the benefit of the CHDs.</p> <p>BGS will notify all Leasing contacts and Business Managers throughout the CHDs that Public Disclosure forms should be made part of all lease agreements as a best business practice. Since many of these leases will be using a local method, BGS can only recommend this as a best business practice.</p> <p><b>Contact:</b> Michael C. Graddy, Support Services Administrator  <b>Anticipated Completion Date:</b> January 1, 2015</p>
<p>3a</p>	<p>The Bureau of CMS Network Administration should work with Bureau of Budget &amp; Revenue Management staff to determine appropriate coding of revenue receipts from leases, and then advise CMS area offices accordingly.</p>	<p>We concur.</p> <p>The Bureau of CMS Network Administration will work with Bureau of Budget &amp; Revenue Management staff to determine appropriate coding of revenue receipts from leases; update the HCMS-IOP 145-016-10 to properly record the receipt of rental revenue; and advise CMS area offices accordingly</p> <p><b>Contact:</b> Melissa Vergeson, Chief, Bureau of CMS Network Administration  <b>Anticipated Completion Date:</b> October 31, 2014</p>
<p>3b</p>	<p>The Bureau of CMS Network Administration should revise IOP 145-016-10, <i>Leasing and Sub-Leasing of Space</i>, to advise CMS area offices how to record the receipt of any rental revenue in accordance with proper accounting procedures. The IOP should address the leasing of space in state-owned facilities and also the subleasing of a portion of leased facilities.</p>	<p>We concur.</p> <p>The Bureau of CMS Network Administration will revise IOP 145-016-10, <i>Leasing and Sub-Leasing of Space</i>, to record the receipt of rental revenue in accordance with proper accounting procedures. The revised IOP will be discussed with the CMS area office regional program administrators on the October 27, 2014 Program Administrator conference call.</p> <p><b>Contact:</b> Melissa Vergeson, Chief, Bureau of CMS Network Administration  <b>Anticipated Completion Date:</b> October 27, 2014</p>
<p>4</p>	<p>DOH – Miami-Dade should designate one person, who is directly involved and knowledgeable of the leases, to approve lease payments for DOH – Miami-Dade.</p>	<p>We concur.</p> <p>DOH - Miami-Dade has assigned lease invoice review and approval responsibilities to the leasing manager.</p> <p><b>Contact:</b> Maribel Zayas  <b>Anticipated Completion Date:</b> Completed</p>

<p>5</p>	<p>The Bureau of CMS Network Administration should advise CMS area office staff of DOHP 57-07-13, <i>Cash Handling</i>, requirements for depositing all receipts timely.</p>	<p>We concur.</p> <p>The prompt deposit of checks received from entities leasing portions of CMS office space, will be deposited in accordance with DOHP 57-07-13, <i>Cash Handling</i>, by close of business the next business day. This finding and corrective action was discussed in June 2014 with the CMS area office that held the checks. This will be discussed with all the Area Office Program Administrators on the August 25, 2014 Program Administrator Call.</p> <p><b>Contact:</b> Melissa Vergeson, Chief, Bureau of CMS Network Administration</p> <p><b>Anticipated Completion Date:</b> August 25, 2014</p>
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