

OKALOOSA COUNTY CLERK OF CIRCUIT COURT



DEPARTMENT OF INSPECTOR GENERAL



REPORT ON THE AUDIT OF INFRASTRUCTURE SURTAX EXPENDITURES

REPORT NO. BCC-19-02

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Background

Based on the public perception of the Half-cent Infrastructure Surtax (Surtax), and the inherent risk of a new revenue source, the Department of Inspector General's work plan for fiscal year 2019 included an audit of Surtax expenditures.

Objective

The objective of our audit was to ensure compliance with the ordinance authorizing the Surtax and to verify that funds are used as approved by the surtax advisory committee and the Board of County Commissioners (BCC).

Scope & Methodology

The scope of our audit covered all expenditures of Surtax funds between January 1, 2019 and December 31, 2019. Audit methodology included interviews with county staff and committee members, identifying risk, process walkthroughs, and substantive tests of controls and expenditures.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, waste, or abuse. This includes the design, implementation, and maintenance of internal controls relevant to these objectives. This audit was conducted in conformance with the *International Professional Practices Framework* issued by the Institute of Internal Auditors and *Principles & Standards for Offices of Inspector General* issued by the Association of Inspectors General.

Surtax Background and Process

On December 5, 2017, the Okaloosa County Board of County Commissioners (BCC) approved Ordinance 2017-24 which approved the imposition of a one-half percent infrastructure surtax (Surtax), contingent upon voter approval of a referendum. On the same day, the BCC approved Resolution 17-192, setting the intent for the use of the Surtax and establishing the surtax advisory committee (Committee). Ordinance 17-24 approved the Surtax for a period of 5 years, which was amended on June 5, 2018 to 10 years. The referendum was approved on November 6, 2018, with 62.66% of the vote.

The Committee is made up of 5 citizens, one appointed by each Commissioner. Resolution 17-192 originally required the Commissioner's appointee to live in their district, but this requirement was later removed by Resolution 18-137. The initial list of projects came from the County's Public Works director after BCC approval. Project proposals almost exclusively originate internally from the County. Once the Committee approves a project and its funding, it goes before the BCC for ratification.

A Surtax Project Manager was hired in April 2019. For the first 3 months of his employment, he was considered a temporary employee and was paid through Landrum Staffing. In June of 2019, he became a regular County employee and is now paid through normal payroll. The Project Manager coordinates all projects from start to finish, including working with the Committee and the Purchasing department. He maintains the overall schedule for the entire 10-year period. He also meets periodically with the Clerk Chief Financial Officer to reconcile financial records. The Project Manager keeps a timesheet recording the amount of time he spends on each project, and his salary is allocated to the projects proportionally. Any admin time, such as attending BCC or committee meetings, is allocated evenly across all active projects. He also ensures that all payments are coded to the correct project and that every invoice sent to finance has the project number on it.

Clerk Finance is responsible for both processing payments related to surtax expenditures and maintaining the BCC’s financial records. Expenses cannot be entered into the system without an associated project, and finance staff does not set up the project in the accounting system until it has been BCC approved. AP staff will not process an invoice or contract payment form unless it has been properly approved per the County’s purchasing manual.

All financial reports produced by county finance are published on the Clerk’s website. All of the Project Manager’s reconciliation reports, minutes from the Committee meetings, and the first annual report are published on a specific surtax portal on the County’s website. All committee meetings are properly advertised, open to the public, and include an opportunity for public comment.

Revenue

The County began collection of the Surtax in January of 2019. During our scope period, total Surtax revenue was \$14,407,476. An additional \$100,909 in interest was collected on Surtax funds.

Projects

During our scope period, surtax funds were expended on 18 projects. These included roads, stormwater, and public safety projects.

ST 1	6th Avenue Stormwater
ST 2	Beachview Drive Drainage
ST 3	Commons Drive Improvements
ST 4	John King Widening
ST 5	Redwood Avenue & John Sims Sidewalk

ST 6	Santa Rosa Boulevard Stormwater, Roadway, Crosswalk Improvements
ST 7	Standish Court Stormwater
ST 8	Sheriff's Office Training Center
ST 9	Crestview Southwest Bypass
ST 10	Carmel Drive & Beal Parkway Intersection
ST 11	Overbrook Area Stormwater
ST 12	Lloyd Street Stormwater
ST 13	Millside Road Improvements
ST 14	Highway 2 Bridge Improvements
ST 15	Crestview Northeast Bypass
ST 16	Public Safety Fleet Improvements
ST 17	School Resource Officer Equipment & Support
ST 18	Emergency Services Communications

Total Surtax expenditures during our scope period were **\$2,595,642.**

Individual Project Highlights

ST 8 – Sheriff’s Office Training Center

A new training center for the Okaloosa County Sheriff’s Office is being paid for with Surtax funds. The new center will include a driving track, firing ranges, and a classroom building. During 2019, the Sheriff’s Office acquired and cleared the land, and began construction on the firing ranges. Total Surtax expenditures during our scope period amounted to \$895,000.

ST 9 – Crestview Southwest Bypass

The Crestview Southwest Bypass project was the single largest recipient of Surtax expenditures during our scope period, approximately \$1.3 million. The project is being completed in phases and there are multiple funding sources, to include Triumph Gulf Coast, Florida Department of Transportation, and a bond issuance.

ST 17 – School Resource Officer Equipment & Support

During our scope period, \$115,000 was spent on equipment for the Sheriff’s Office school resource officer program. Unlike other Surtax expenditures, these funds were dispersed as reimbursements for purchases already made by the Sheriff’s Office. These included expenditures for live stream

video equipment, ballistic plates, rifle bags, and rifle accessories. Though not purchased until February of 2020, during our scope period the committee and the BCC approved the use of \$72,000 of Surtax funds to replace the Sheriff's Office's K9s due to changes in marijuana laws.

The statute authorizing the Surtax, Section 212.055 Fla. Stat., contains definitions of what constitutes "Infrastructure" and, thus, allowable expenditures of Surtax funds. One of these definitions states "a fire department vehicle, an emergency medical service vehicle, a sheriff's office vehicle, a police department vehicle, or any other vehicle, and the equipment necessary to outfit the vehicle for its official use **or equipment that has a life expectancy of at least 5 years.**" [Emphasis added] The County attorney's office stated that the County has interpreted this to mean that any equipment with an expected useful life of 5 years or more is "Infrastructure" for the purposes of the Surtax.

Testing

During our audit, our objective was to ensure compliance with the ordinance authorizing the Surtax and to verify that funds are used as approved by the surtax advisory committee and the BCC.

We conducted testing of Surtax expenditures and supporting documentation, underlying contracts, and reports produced by County and Clerk staff. We pulled samples of individual purchases made with Surtax funds and applied risk-based audit procedures. We also recalculated and verified amounts contained in the Reconciliation Reports to ensure the information was fairly presented.

On the County side, we found no instances of non-compliance with the Surtax ordinance, purchasing manual, or any other internal policy or statute. In our opinion, the information contained in the Reconciliations accurately portrays Surtax revenue and expenditures.

On the Clerk side, we found two instances where contract payment forms were not signed by Accounting before being sent to Accounts Payable to be processed for payment. Because the Clerk has since moved to a paperless workflow process, this does not rise to the level of an internal control deficiency. We found no other instances of non-compliance with the Surtax ordinance, Finance department policy, internal control best practices, or any other statute or regulation.

Conclusion

Both the County and the Clerk's Office have developed in-depth processes for handling the Infrastructure Surtax funds. The citizen committee has an appropriate level of independence from both the BCC and County staff and has not acted as a "rubber stamp" for the County's and other parties' funding desires. The County's decision to hire a Project Manager has helped to ensure proper management of Surtax funds and

that project timelines are maintained, and costs are contained. Both the County and the Clerk have been transparent with Surtax revenue and expenditure information and regularly produce reports that are both accurate and easily understandable.

In our opinion, internal control over the expenditure of Surtax funds is appropriately designed and operating effectively.

While we are not reporting any findings, we have made two recommendations to help ensure full transparency and the continued efficient management of Surtax funds:

Recommendation 1: Administrative Cost Allocation Should be Depicted as a Separate Item on the Reconciliation Reports/Revenue & Expense Summary

The allocation of the Project Manager’s administrative time to the various projects changes the overall cost of the individual projects. However, the effect is immaterial to the total budgeted cost of any individual project. The alternative is to create a project specifically for administrative costs, but County personnel have indicated that they prefer for expenditures to be made only to Surtax projects. The financial reports do not make this distinction, though. For example, the Surtax Project Reconciliation report as of 11/26/2019 (the last one produced during our scope period) showed that expenditures of Surtax funds for Project ST 1, 6th Street Area Stormwater, totaled \$2,296. The entirety of these expenditures were Project Manager costs. The report does not specify that this is Project Manager payroll, nor does it make any distinction between allocated administrative time and actual project work charged. In the interest of full transparency, we recommend that the reports include a separate line below Surtax expenditures on each project’s page that indicates the amount of administrative cost that has been allocated to the project.

Recommendation 2: Processes Should be Implemented to Prevent “Scope Creep” in Surtax Projects

Project ST 17, School Resource Officer Equipment & Support, was described to the committee as a response to an identified need for “improved communications and mass notification, together with video monitoring and tracking for forty public schools and buses.” The project manager uses the same description in the Reconciliation Reports. During our scope period, the committee approved, and the BCC ratified, the expenditure of \$72,000 to replace the Sheriff’s Office’s K9s. While this is an allowable use of Surtax funds, it does not fit within the Scope of Project ST 17. The County should develop a process for determining when an expenditure is not within a project’s scope and a new project may need to be created. To ensure transparency and accurate cost tracking, expenditures should not be assigned under projects that are not related to their purpose.

Management Response

Response to Recommendation 1 – “We agree with the IG’s recommendation and will be breaking out administrative costs within the reconciliation report. With the addition of a Project Coordinator and with the continued coordination through the Clerk’s Finance staff, our Project Manager will ensure that payroll costs are accurately tracked and assigned to the individual projects.” (Received via email on November 24, 2020 from the County Administrator).

Response to Recommendation 2 – “We agree with the IG’s recommendation and will ensure that any “scope creep” experienced throughout a project’s life cycle is accurately identified and transparent throughout the process. In those instances where additional work, materials, expenditure deviate from the project’s original intent, we will coordinate with the Surtax Committee to create a separately identifiable project. For the project involving the K-9 purchases, we struggled initially with how to classify and track these expenditures. This was closely coordinated through the Sheriff’s legal counsel and County legal counsel as to how animals are classified and depreciated. In the end, it was determined that the animals would be treated as equipment and, therefore, assigned to the School Resource Officer program. I suspect that this particular circumstance will be an anomaly to the Surtax program and not encountered again. Regardless, we will ensure that “scope creep” is addressed throughout the lifecycle of each project and those costs segregated and accurately identified.” (Received via email on November 24, 2020 from the County Administrator).