



DEPARTMENT OF INSPECTOR GENERAL

OKALOOSA COUNTY, FLORIDA

JD PEACOCK II, CLERK OF CIRCUIT COURT AND COMPTROLLER



January 22, 2019

John Hofstad, County Administrator
1250 N Eglin Pkwy
Suite 102
Shalimar, FL 32579

Mr. Hofstad,

Please find attached the report on our review of Okaloosa Community Development Corporation (OCDC).

Our work served as a follow-up review of the findings from our previous audit of OCDC. We examined changes to policies, procedures, and internal control to determine if recommendations made by our office had been put into place and if they were operating effectively.

Should you have any questions please do not hesitate to call me. I can be reached at (850) 689-5000 Ext. 3424.

Respectfully,

Brad E. Embry, Inspector General

CC: JD Peacock II, Clerk of Circuit Court and Comptroller
Elliot Kampert, Director of Growth Management

OKALOOSA COUNTY CLERK OF CIRCUIT COURT



DEPARTMENT OF INSPECTOR GENERAL



FOLLOW-UP REVIEW OF OKALOOSA COMMUNITY DEVELOPMENT CORPORATION

REPORT NO. BCC-18-03

REPORT ISSUED JANUARY 22, 2019

ISSUED BY: BRAD E. EMBRY, INSPECTOR GENERAL

Background

At the request of the Okaloosa County Board of County Commissioners, our office conducted an audit of Okaloosa Community Development Corporation (OCDC) to test compliance with contracts that OCDC holds with Okaloosa County. Our report (BCC-17-02) was issued on January 12, 2018. Our audit discovered various issues with contract compliance, mandated reporting, program management, internal control, and accounting procedures. In their management response, OCDC listed steps they would take to correct the problems discovered in our audit.

Beginning in October 2018, our office conducted a follow-up review to ensure that the processes and procedures OCDC described to correct issues raised in the initial audit had been implemented.

Purpose, Scope, and Methodology

The purpose of our review was to ensure that changes planned to correct issues raised in our original audit had been implemented and were operating effectively. We met with OCDC staff to discuss changes in policy and procedure, examined their use of QuickBooks, and conducted testing of NSP files, SHIP files, and rental unit accounts.

The scope of our work included all transactions occurring after the date of the original report, January 12, 2018 until December 31, 2018.

Note for Clarity: "Audit" or "Original Audit" refers to the prior engagement, with the report issued January 12, 2018. "Review" or "Follow-up" refers to the current engagement, with the report issued January 22, 2019.

SHIP

Our original audit noted that OCDC should improve its process for eligibility verification. In our follow-up review, we noted that the income certification form was present in all files we tested. However, the main problem identified with this form, ensuring that cohabitants apply separately for income inclusion purposes, was **not** corrected. In each file we examined, on the income certification under "Number of Residents", an "X" was listed in place of an actual number.

As per policy, the Executive Director must sign every draw request for SHIP funds. In an interview with our office, the executive director confirmed that he signs all of the requests. However, every file we examined contained draw requests that were processed and paid without the Executive Director's signature.

Our review noted that SHIP projects were not always awarded to the lowest bidding contractor, but this is in compliance with OCDC's SHIP Policies and Procedures, which state that the award is to be based on additional factors such as quality, financial stability, and number of current projects. However, as noted in the audit, SHIP files still do not contain documentation of the reason for selecting a particular contractor. This absence of documentation, coupled with the award of the project being at the sole discretion of the SHIP Inspector, represent a lack of internal control over the disbursement of SHIP funds.

The most prominent issue discovered in the original audit was a lack of documentation during the SHIP process. This problem remains, and our follow-up review discovered only minimal progress toward correcting it.

NSP

The original audit discovered missing documentation in NSP tenant files and instances of failure to include a spouse/additional resident's income for eligibility determination. During our follow-up review, we tested 10 tenant files. We found that one did not contain a bank statement or pay stub for income determination, and another did not contain a copy of the applicant's ID.

In one file tested during the review, there appeared to be a disparity in the number of dependents; the couple claimed to be expecting a child in November 2018, while also claiming that a child had been born to them in July 2018. OCDC did not appear to investigate this discrepancy to determine the proper number of dependents. In two other files, there were dependents who had either recently reached or would soon reach the age of majority. OCDC does not have systems in place to determine when the ages of dependents affect program eligibility.

Our review discovered only minimal discrepancies in NSP files and all tenant files reviewed appeared to meet eligibility requirements based on the information provided. However, OCDC does not appear to have systems in place to ensure proper monitoring.

Accounting and Internal Control

Our audit found that OCDC did not have the appropriate knowledge and training to follow generally accepted accounting principles (GAAP). The external auditors identified a material weakness in internal control during the FY 2014-15 audit. In their response, OCDC management stated that they would engage an external vendor to provide accounting services.

OCDC did not engage an accounting vendor, however, they did hire a part-time bookkeeper who started early in FY 2018-19. During the follow-up, our office interviewed the new bookkeeper, and while the bookkeeper is not a Certified Public Accountant (CPA) and has not worked in public or corporate accounting, he does possess significant experience as well as an undergraduate degree in accounting.

A lack of internal control, specifically segregation of duties, was a major issue identified in our audit. Our office recommended that OCDC utilize the "user groups" function in QuickBooks to ensure that employees could only use the program functions necessary for their position. The bookkeeper was unsure if proper "user groups" had been set up in QuickBooks. Additionally, the Executive Director remains the Administrator in QuickBooks and has full, uncontrolled access to the system for any function, including transaction creation, editing, and deletion. The Executive Director stated that the Program Administrator (not a finance/accounting position) also has full access to the system. The bookkeeper does not have full access to the system. The executive Director receives all checks as they come in the mail, records them in an unofficial register, then delivers them to the Program Administrator. The Executive director appears to have unlimited access to OCDC's funds and financial records at all times, presenting a **critical** internal control deficiency.

OCDC does not create monthly accounts receivable (AR) in the accounting software for rent due from tenants. It's not necessary to send monthly invoices to tenants for ongoing leases, however, failing to record AR creates a lack of internal control over revenue collection. Both our audit and the follow-up review identified numerous situations where tenants were not charged rent due to this disparity in record-keeping. Additionally, records of the collection and return of security deposits are not effectively or consistently kept. When security deposits are retained to cover the cost of repairs,

OCDC files do not contain records detailing the reason. Per contract, security deposits retained by OCDC are considered program revenue. The lack of effective procedures for security deposit record keeping affects OCDC's recognition of revenue.

Overall Assessment

OCDC does not have systems in place to ensure that program and reporting requirements are met. Where policies and procedure do exist, they are often not followed and are inadequate to address identified problems. Very few of the changes recommended in our audit were made, and those that were made have been applied inconsistently.

Additional Issues Identified

In addition to the follow-up of issues from the audit, we identified several other items of concern:

1.) OCDC had not been remitting payroll taxes to the IRS since at least 2016. Employee W2s provided by OCDC showed that these taxes were deducted from employee paychecks, but we could find no record of payments to the IRS. The Executive Director stated that these taxes had not been remitted, and they were working on a solution with the IRS. A payment of \$60,000 was made to the IRS on December 18, 2018, ostensibly to settle the unpaid amount. A copy of this check was provided to us. However, OCDC did not provide any documents from the IRS indicating that this was the amount owed, or that the IRS considered the matter settled.

We do not know at this time if any additional amount remains outstanding. We believe that this issue presents a high level of risk exposure to the County. We recommend the county take immediate action to ensure they will not be in any way liable for OCDC's potential tax debts.

2.) OCDC previously provided lodging to one of their former employees. The executive director stated that this was approved by the Board of Directors. Based on statements made to our office by the Executive Director, the employee did not qualify for an exemption and the value of this lodging should have been included as additional income on the employee's W2. W2s provided by OCDC did not show this amount as additional income for the employee. This issue does not affect the result of the audit or review, but it further demonstrates OCDC's repeated failure to comply with legal and contractual requirements.