

**OKALOOSA COUNTY  
BOARD OF COUNTY COMMISSIONERS  
AND  
OKALOOSA COUNTY  
CLERK OF THE CIRCUIT COURT**

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**Operational Audit**



## BOARD OF COUNTY COMMISSIONERS AND CLERK OF THE CIRCUIT COURT

The Okaloosa County Board of County Commissioners and Okaloosa County Clerk of the Circuit Court who served during the period October 2011 through February 2013 are listed below:

<u>Board of County Commissioners</u>	<u>District No.</u>
Wayne Harris	1
Dave Parisot, Vice Chair from 1-1-2012	2
Bill Roberts to 11-19-2012, Vice Chair to 12-31-2011	3
Nathan Boyles from 11-20-2012	3
Don Amunds, Chair from 1-1-2012	4
James Campbell to 11-19-2012, Chair to 12-31-2011	5
Kelly Windes from 11-20-2012	5
<u>Clerk of the Circuit Court</u>	
Don W. Howard	

The audit team leader was Kenneth C. Danley, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at [marilynrosetti@aud.state.fl.us](mailto:marilynrosetti@aud.state.fl.us) or by telephone at (850) 412-2881.

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OKALOOSA COUNTY BOARD OF COUNTY COMMISSIONERS AND  
OKALOOSA COUNTY CLERK OF THE CIRCUIT COURT

EXECUTIVE SUMMARY

Our operational audit of the Okaloosa County Board of County Commissioners and the Okaloosa County Clerk of the Circuit Court disclosed the following:

Okaloosa County Board of County Commissioners (BCC)

FRAUD AND ETHICS CONTROLS/RISK ASSESSMENTS

Finding No. 1: The BCC had not performed and documented periodic fraud or control risk assessments of the operations of BCC departments, developed written action plans that implement and monitor needed controls, or included a fraud response plan in its policies and procedures.

Finding No. 2: Two BCC employees did not file a statement of financial interests with the Okaloosa County Supervisor of Elections, contrary to law.

Finding No. 3: BCC policies and procedures were not adequate to identify and prevent potential conflicts of interest.

ADMINISTRATIVE MANAGEMENT

Finding No. 4: Listings of disbursements that included the check number, amount, payee, and authorized public purpose of each expenditure were not recorded in the BCC minutes, contrary to law.

Finding No. 5: The BCC had not adopted policies addressing an acceptable level of unrestricted fund balance in its General Fund or developed a plan to replenish the unrestricted fund balance should it fall below target levels.

RESTRICTED RESOURCES

Finding No. 6: The BCC had not established separate accountability for each type of fuel tax to demonstrate fuel taxes were spent for authorized purposes.

Finding No. 7: The BCC did not obtain adequate support for certain disbursements from the law enforcement trust fund, or document its decision as to how certain disbursements represented allowable uses of law enforcement trust fund moneys in accordance with the provisions of law.

PROCUREMENT

Finding No. 8: The BCC did not competitively procure certain professional services and the BCC did not document that these services could only be obtained from one company.

Finding No. 9: The BCC needed to strengthen its procedures regarding the procurement of contractual services.

Finding No. 10: BCC records did not adequately document the authorized public purpose served by certain promotional and training-related expenditures. Also, the BCC did not establish written procedures over the use of promotional gift cards.

Finding No. 11: The BCC needed to strengthen its procedures regarding the use of purchasing cards.

Finding No. 12: The BCC did not document the necessity of paying for certain goods and services in advance of their receipt, contrary to law.

TRAVEL

Finding No. 13: Several County Commissioners received monthly travel allowances based on typical months' travel statements that were outdated, included unallowed mileage, or did not include adequate descriptions of the travel claimed.

CONTRIBUTIONS

Finding No. 14: The BCC had not adopted policies and procedures for making contributions to private nonprofit corporations. Also, the BCC did not consistently document how contributions to the corporations served an authorized public purpose, require the corporations to enter into a written agreement stating the purpose for which the contributions should be used, or obtain a subsequent accounting from the corporations as to how the contributions were ultimately used.

MOTOR VEHICLES

Finding No. 15: The BCC had not established adequate controls over the use of fuel cards.

Okaloosa County Clerk of the Circuit Court (CCC)

ORGANIZATIONAL OVERSIGHT

Finding No. 16: The CCC did not ensure that adequate documentation accompanied certain BCC payment vouchers or deny payment of BCC payment vouchers that were inadequately supported.

Finding No. 17: The CCC had not adopted policies or procedures governing the operations of the Internal Audit Department, nor did the Internal Audit Department prepare periodic work plans that detailed planned audits and work activities.

FRAUD AND ETHICS CONTROLS/RISK ASSESSMENTS

Finding No. 18: The CCC had not performed periodic fraud or control risk assessments of the operations of CCC departments.

Finding No. 19: CCC policies and procedures were not adequate to identify and prevent potential conflicts of interest.

ELECTRONIC COMMERCE

Finding No. 20: The CCC had not adopted written policies and procedures, or established effective controls, over transactions involving electronic commerce.

INFORMATION TECHNOLOGY

Finding No. 21: The CCC had not established adequate controls over employee access privileges to data and information technology resources.

**BACKGROUND**

Okaloosa County Board of County Commissioners. The BCC is the chief legislative body in the County, and its general duties and responsibilities are outlined in Chapter 125, Florida Statutes. The BCC is composed of five County Commissioners, and each County Commissioner is elected to serve a four-year term by the voters in the geographical district in which he or she resides. The BCC approves the County budget, adopts local ordinances and resolutions, and establishes policies and procedures that govern the County and ensure the health, safety, and welfare of the citizens.

Some County responsibilities are performed by elected constitutional public officers: the Clerk of the Circuit Court (judicial support and other services as indicated below); Property Appraiser (appraisal and assessment of property); Sheriff (law enforcement); Supervisor of Elections (elections oversight and administration); and Tax Collector (tax

collection). While these other County constitutional officers derive a majority of their funding from the BCC, they administer their duties and responsibilities separately from the BCC.

To fulfill its duties and responsibilities, the BCC makes expenditures for the services provided to its citizens. Expenditures totaling \$281 million during the period October 2011 through February 2013, categorized into State accounting manual service areas, are shown in Table 1:

<b>Table 1:</b>				
<b>Summary of BCC Expenditures - 2011-12 Fiscal Year</b>				
<b>Functional Classification</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Proprietary</b>	<b>Total</b>
General Government Services	\$ 14,383,138	\$ 9,817,140	\$ 18,520,685	\$ 42,720,963
Physical Environment	1,047,776	1,556,405	33,389,255	35,993,436
Transportation	715,446	28,199,582	2,027,823	30,942,851
Public Safety	13,889,858	2,254,710	8,520,803	24,665,371
Culture/Recreation	1,243,757	7,827,434	4,300,553	13,371,744
Economic Environment	1,649,506	3,886,487		5,535,993
Human Services	2,625,075	933,804		3,558,879
Court Related	367,513	1,115,378		1,482,891
Other Uses	34,402,996	5,692,843	952,629	41,048,468
<b>Grand Total</b>	<b>\$ 70,325,065</b>	<b>\$ 61,283,783</b>	<b>\$ 67,711,748</b>	<b>\$ 199,320,596</b>
<b>Summary of BCC Expenditures - October 1, 2012, through February 28, 2013</b>				
<b>Functional Classification</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Proprietary</b>	<b>Total</b>
General Government Services	\$ 7,131,212	\$ 1,889,926	\$ 7,418,853	\$ 16,439,992
Physical Environment	387,505	553,824	12,666,631	13,607,960
Transportation	230,381	6,344,913	5,315,664	11,890,959
Public Safety	5,528,261	897,151	3,097,774	9,523,185
Culture/Recreation	466,054	2,361,946	2,432,280	5,260,280
Economic Environment	1,232,393	733,804		1,966,197
Human Services	1,071,983	214,879		1,286,862
Court Related	126,334	404,627		530,961
Other Uses	19,022,179	2,095,072	178,385	21,295,635
<b>Grand Total</b>	<b>\$ 35,196,303</b>	<b>\$ 15,496,142</b>	<b>\$ 31,109,586</b>	<b>\$ 81,802,031</b>

Source: County General Ledger

Revenues used to pay for these expenditures come from unrestricted, restricted, and proprietary sources. Unrestricted sources, of which the main source is ad valorem (property) taxes, are those that contain no restrictions on the use of the moneys other than they must be for authorized public purposes. Restricted sources include Federal, State, and local grants and/or intergovernmental revenues, and these sources generally contain restrictions on how the BCC can spend the money. Proprietary sources include internal charges, such as self-insurance, and charges to customers for goods and services, such as water and sewer.

**Okaloosa County Clerk of the Circuit Court.** The Florida Constitution establishes the CCC as public trustee for the County. In this role, the CCC provides for checks and balances in County government by acting as clerk to the BCC, clerk to the court, keeper of public records, comptroller, and internal auditor of County funds. The CCC serves County government by acting as accountant and auditor for the BCC, collector and distributor of statutory assessments, and guardian of public records, public funds, and public property. The CCC serves the court by ensuring that appropriate parties carry out the court’s orders, judgments, or directives; maintaining the court’s records; collecting and disbursing court-assessed fines, fees, and assessments; and collecting and disbursing court-ordered child support and alimony payments. The CCC serves State government by collecting and disbursing documentary stamps and intangible taxes to the State; collecting and disbursing other State-mandated fees and assessments to the State; providing informational, financial, and statistical data to the State; and managing County funds in accordance with State law.

The CCC’s expenditures incurred to fulfill his duties and responsibilities totaling \$10.3 million during the period October 2011 through February 2013, categorized by State functional area, are shown in Table 2:

<b>Table 2:</b>			
<b>Summary of CCC Expenditures - 2011-12 Fiscal Year</b>			
<b>Functional Classification</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
General Government Services	\$ 2,202,379	\$ 101,110	\$ 2,303,489
General Court Administration - Circuit		870,616	870,616
General Court Related Operations - County	566,126	131,201	697,327
County Court - Traffic		595,514	595,514
Circuit Court - Criminal		452,907	452,907
County Court - Criminal		437,026	437,026
Circuit Court - Civil		371,939	371,939
County Court - Civil		353,154	353,154
Circuit Court - Family		310,598	310,598
Circuit Court - Juvenile		231,454	231,454
Human Services	221,647		221,647
Circuit Court - Probate		92,709	92,709
Other Uses	624,126		624,126
<b>Grand Total</b>	<b>\$ 3,614,278</b>	<b>\$ 3,948,228</b>	<b>\$ 7,562,506</b>
<b>Summary of CCC Expenditures - October 1, 2012, through February 28, 2013</b>			
<b>Functional Classification</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
General Government Services	\$ 833,531	\$ 18,331	\$ 851,862
General Court Administration - Circuit		375,153	375,153
General Court Related Operations - County	158,828	143,954	302,782
County Court - Traffic		228,423	228,423
Circuit Court - Criminal		185,777	185,777
County Court - Criminal		173,805	173,805
Circuit Court - Civil		152,349	152,349
County Court - Civil		145,168	145,168
Circuit Court - Family		126,527	126,527
Circuit Court - Juvenile		92,411	92,411
Human Services	90,152		90,152
Circuit Court - Probate		37,963	37,963
Other Uses			-
<b>Grand Total</b>	<b>\$ 1,082,511</b>	<b>\$ 1,679,861</b>	<b>\$ 2,762,372</b>

Source: Clerk General Ledger

Revenues used to pay for these expenditures come from unrestricted and restricted sources. Unrestricted sources, of which the main source is operating transfers from the BCC, are those that contain no restrictions on the use of the moneys other than they must be for authorized public purposes. Restricted sources include State and local grant revenues and collections that generally contain restrictions on how the CCC can spend the money.

**FINDINGS AND RECOMMENDATIONS**

Our report No. 2013-085, issued in January 2013, included our findings related to the BCC’s oversight of the Tourist Development Council and use of tourist development taxes by the Tourist Development Department, a BCC department. The scope of this audit did not include a review of Tourist Development Department transactions. However, for the areas of BCC operations that were included within the scope of this audit, we found several issues that were similar to issues also noted in our report No. 2013-085. This may be attributable to the fact that the period (October 2011 through February 2013) in which we primarily focused our examination of records and transactions for this audit overlaps to some extent with the period (May 2010 through May 2012) covered in report No. 2013-085. The County’s efforts to address the recommendations included in report No. 2013-085 are ongoing, and include corrective actions such as revision of its purchasing-related policies in April 2013 as indicated in finding Nos. 3, 9, and 11.

## OKALOOSA COUNTY BOARD OF COUNTY COMMISSIONERS

## Fraud and Ethics Controls/Risk Assessments

**Finding No. 1: Fraud Controls and Risk Assessments**

An effective anti-fraud program, including periodic fraud risk assessments and fraud controls monitoring, is an important part of an organization's system of internal control. It can decrease the risk of fraud occurring in an organization and minimize the impact of fraud on an organization should it occur. Performing periodic risk assessments can help to identify and analyze fraud risks and control weaknesses, such as those noted throughout this report, and help ensure that adequate internal controls are in place to minimize fraud risks and control weaknesses that could adversely affect the BCC's operations.

As similarly noted in report No. 2013-085 (finding Nos. 5 and 6), our review disclosed that the BCC had not performed and documented periodic fraud or control risk assessments of the operations of BCC departments or developed written action plans that implemented and monitored needed controls. In April 2013, the BCC engaged a CPA firm to perform a review of the BCC's control environment and to conduct fraud and control risk assessments related to the BCC's operations, including accounting activities for the BCC performed by the CCC. The CPA firm issued a report dated August 26, 2013, that identified several fraud risks and control weaknesses and provided recommendations to the BCC to address those issues.

Comprehensive fraud policies and procedures are also an important part of an effective anti-fraud program. As noted in report No. 2013-085 (finding No. 5), BCC policies and procedures included a code of conduct, addressed unlawful and prohibited actions, and provided consequences for these actions. In addition, the BCC had adopted a whistleblower's protection policy that provides protection to those individuals who report known or suspected violations of statutes, rules, or regulations. However, these policies and procedures did not include a written fraud response plan that addressed investigation protocols or provided guidance on reporting known or suspected fraud to the appropriate authorities. In the absence of a written fraud response plan, there is an increased risk that known or suspected fraud may not be investigated and reported in accordance with the BCC's intentions. As part of its recommendations, the CPA firm that conducted the fraud risk assessment for the BCC recommended that the BCC use a hotline managed by an independent party for employees, vendors, and the public to report suspected improper activity; establish a program that provides for routine and surprise internal audits on a continuing basis; provide anti-fraud and ethics training to employees; and institute a policy requiring employees to take annual vacations.

**Recommendation:** The BCC should continue its efforts to ensure that periodic fraud and control risk assessments are performed and action plans are prepared to implement and monitor needed controls. In addition, the BCC should enhance its anti-fraud program policies and procedures to include a written fraud response plan.

**Finding No. 2: Statements of Financial Interests**

Section 112.3145(6), Florida Statutes, provides that the Florida Commission on Ethics (Commission) shall annually prepare a listing of local officers required to file a statement of financial interests and provide that listing to the local supervisor of elections. Section 112.3145(2), Florida Statutes, provides that each local officer must file a statement of financial interests with the supervisor of elections no later than July 1 of each year. Section 112.3145(1), Florida Statutes, further specifies that local officers include, among others, elected officials; the chief administrative employee

of a county; county attorneys; chief county building code inspectors; appointed members of county boards having the power to enforce local code provisions; appointed members of planning or zoning boards, boards of adjustment, boards of appeals, or other boards having the power to recommend, create, or modify land planning or zoning within a political subdivision; and purchasing agents having the authority to make any purchase exceeding \$20,000.

Statements of financial interests are important in that they provide a public record that discloses the financial interests, activities, and associations of local officers, including potential conflicts of interest. Each year, the Commission prepares a list of persons holding governmental positions who are required to file statements of financial interests for the previous year. The Commission obtains the name and address of each of these persons from coordinators who have been designated for each State and local government agency.

Our test of 27 Okaloosa County local officers required to file statements of financial interests for the 2011 calendar year indicated that 25 (93 percent) had filed the required statements, including all County Commissioners; however, our test indicated that, as of April 2013, the County's chief building code inspector and one BCC employee with the authority to purchase goods and services in excess of \$20,000, had not filed such a statement with the Okaloosa County Supervisor of Elections (Supervisor of Elections). In response to our inquiries, BCC personnel stated that it is the statutory responsibility of the Commission to determine which positions within the County are required to file a statement of financial interests and the responsibility of the Supervisor of Elections to follow-up with individuals who do not file such a statement. BCC personnel also stated that the BCC follows statutory procedures and has not created an alternative procedure. While we agree it is ultimately the responsibility of the Commission to determine which positions within the County are required to file statements of financial interests, the Commission depends on local governments and coordinators to identify certain local officers required to file such a statement, such as BCC employees with the authority to purchase goods and services in excess of \$20,000. When the Commission is not notified of such local officers, there is an increased risk that the BCC may do business with entities for which a conflict of interest exists because such interests would not have been disclosed.

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**Recommendation:** The BCC should ensure that the names and positions of applicable local officers as defined in Section 112.3145(1), Florida Statutes, are communicated to the Commission.

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### **Finding No. 3: Conflicts of Interest**

Pursuant to Section 112.313(3), Florida Statutes, no BCC employee acting in his or her official capacity as a purchasing agent, or public officer acting in his or her official capacity, may either directly or indirectly purchase, rent, or lease any realty, goods, or services for the BCC from any business entity in which the officer or employee or the officer's or employee's spouse or child is an officer, partner, director, or proprietor, or in which such officer or employee or the officer's or employee's spouse or child, or any combination of them, has a material interest. Pursuant to Section 112.313(7)(a), Florida Statutes, no BCC officer or employee may have or hold any employment or contractual relationship with any business entity or agency that is subject to the regulation of, or is doing business with, the BCC. This Section further prohibits a BCC officer or employee from having or holding any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her public duties, or that would impede the full and faithful discharge of his or her duties. In addition, BCC policies prohibit conflicts of interest and provide for disciplinary action if those policies are violated.

In April 2013, the BCC adopted policies requiring vendors that provide competitively procured goods and services to the BCC, or suppliers that provide goods or services in excess of \$2,500 to contractors of the BCC, to disclose potential conflicts of interest. However, the BCC had not adopted policies requiring employees to disclose all

potential conflicts of interest. Section 112.313(12)(f), Florida Statutes, provides that the prohibitions against doing business with one's own agency does not apply when the aggregate of such transactions does not exceed \$500 in a calendar year. While we understand the practicality of establishing a threshold for requiring disclosures of potential conflicts of interest, not evaluating all purchases for potential conflicts of interest increases the risk that conflicts of interest prohibited by Section 112.313, Florida Statutes, may occur and not be detected. Further, delegating to vendors the BCC's responsibility to identify potential conflicts of interest may not be effective or appropriate.

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**Recommendation:** The BCC should enhance its policies and procedures, as needed, to identify and prevent potential conflicts of interest. Such policies could include, for example, requiring employees to disclose potential conflicts of interest.

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<b>Administrative Management</b>
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**Finding No. 4: BCC Duties and Responsibilities**

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As discussed in the Background section of this report, the BCC spent \$281 million during the period October 2011 through February 2013. Section 136.06(1), Florida Statutes, provides, in part, that all money drawn from a County depository must be upon a check or warrant issued by the BCC or officer drawing the same, and said check or warrant, both as to number and amount, person to whom drawn, and purpose for which drawn shall be recorded in BCC minutes. However, listings of disbursements that included the check number, amount, payee, and authorized public purpose of each expenditure were not recorded in the BCC minutes. Recording such a listing in the BCC minutes evidences the BCC's oversight, promotes an environment of accountability, and enhances transparency to the County's citizenry.

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**Recommendation:** The BCC should ensure that the check number, amount, payee, and authorized public purpose of each expenditure are recorded in the BCC minutes as required by law.

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**Finding No. 5: Fund Balance – General Fund**

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The Governmental Accounting Standards Board (GASB), through issuance of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, established classifications of fund balance based on the extent to which the funds are bound by external and internal constraints. Fund balances classified as nonspendable and restricted represent funds that cannot be spent or must be spent for specific purposes based on external or legal constraints. Unrestricted fund balance (i.e., fund balance not classified as nonspendable or restricted) in a government's General Fund represents net financial resources generally available to a government to be used for any lawful purpose.

The Government Finance Officers Association (GFOA) recommends that local governments establish a formal policy on the level of unrestricted<sup>1</sup> fund balance that should be maintained for the General Fund and develop a formal plan to replenish the unrestricted fund balance should it fall below target levels. The GFOA recommends that, at a minimum, local governments maintain an unrestricted fund balance in the General Fund that is no less than two months (17 percent) of the General Fund's operating revenues or operating expenditures.

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<sup>1</sup> In GFOA's best practice, *Appropriate Level of Unrestricted Fund Balance in the General Fund*, the term "unrestricted" refers to those amounts classified as committed, assigned, and unassigned.

The BCC had not adopted policies that address an acceptable level of unrestricted fund balance in its General Fund or developed a plan to replenish the unrestricted fund balance if needed. At September 30, 2011, and 2012, the BCC reported General Fund unrestricted fund balance of \$3,589,267 and \$8,139,047, respectively. The amounts reported represented 4 and 10 percent of operating revenues and operating expenditures for the respective fiscal years. These percentages are below the minimum percentages recommended by the GFOA, and the increase in the percentage during the 2011-12 fiscal year was primarily attributable to a one-time cash inflow from a significant sale of property and not from recurring County operations. In addition, the BCC may be required to reduce its General Fund unrestricted fund balance even further depending on the resolution of \$2,801,820 in questioned costs that we noted in report No. 2013-085 (finding Nos. 17, 18, and 19). If the BCC is required to restore these questioned costs, it could have significantly less resources available for emergencies or unforeseen circumstances.

**Recommendation:** The BCC should adopt formal policies addressing an acceptable level of unrestricted fund balance in its General Fund and develop a formal plan to replenish the unrestricted fund balance should it fall below target levels.

**Restricted Resources**

**Finding No. 6: Accounting for Fuel Taxes**

During the period October 2011 through February 2013, the BCC received \$26.8 million from four fuel taxes: (1) the First Local Option Fuel Tax; (2) the County Fuel Tax; (3) the Ninth-Cent Fuel Tax; and (4) the State Constitutional Gas Tax. These taxes were accounted for, in whole or in part, in the County Transportation Trust Fund, and the use of these taxes was restricted for various purposes, as discussed below.

The First Local Option Fuel Tax is authorized by Sections 206.41(1)(e), 206.87(1)(c), and 336.025, Florida Statutes, and the BCC received \$11.9 million from this tax during the period October 2011 through February 2013. Pursuant to Section 336.025(7), Florida Statutes, this tax must be used for the following transportation expenditures:

- Public transportation operations and maintenance.
- Roadway and right-of-way maintenance and equipment and structures used primarily for the storage and maintenance of such equipment.
- Roadway and right-of-way drainage.
- Street lighting installation, operation, maintenance, and repair.
- Traffic signs, traffic engineering, signalization, and pavement markings, installation, operation, maintenance, and repair.
- Bridge maintenance and operation.
- Debt service and current expenditures for transportation capital projects in the foregoing program areas, including construction or reconstruction of roads and sidewalks.

The County Fuel Tax is authorized by Section 206.41(1)(b), Florida Statutes, and the BCC received \$3.5 million from this tax during the period October 2011 through February 2013. Pursuant to Section 206.60, Florida Statutes, this tax must be used solely for the acquisition of right-of-ways; the construction, reconstruction, operation, maintenance, and repair of transportation facilities, roads, bridges, bicycle paths, and pedestrian pathways therein; or the reduction of bonded indebtedness incurred for roads and bridges or other transportation purposes.

The Ninth-Cent Fuel Tax is authorized by Sections 206.41(1)(d) and 206.87(1)(b), Florida Statutes, and the BCC received \$3.6 million from this tax during the period October 2011 through February 2013. Pursuant to Section 336.021(1)(a), Florida Statutes, this tax must be used for transportation expenditures as defined above for the First Local Option Fuel Tax.

The Constitutional Fuel Tax is authorized by Article XII, Section (9)(c), of the State Constitution and Section 206.41(1)(a), Florida Statutes, and the BCC received \$7.8 million from this tax during the period October 2011 through February 2013. Pursuant to Section 206.47(7), Florida Statutes, this tax must be used to meet the debt service requirements, if any, of certain debt assumed or refunded by the State Board of Administration payable from the constitutional fuel tax. The remaining tax must be used for the acquisition, construction, and maintenance of roads, and may include the construction and installation of traffic signals, sidewalks, bicycle paths, and landscaping. This tax may also be used as matching funds for any Federal, State, or private grant specifically related to these purposes.

The BCC is responsible for establishing adequate controls to provide reasonable assurance that fuel taxes are spent only for authorized purposes. As noted above, some authorized uses may apply to all or some of the fuel taxes; however, some uses authorized for certain fuel taxes may not be authorized for other fuel taxes. Consequently, the BCC must separately account for fuel taxes with different authorized uses to demonstrate the fuel taxes were spent for authorized purposes. Our review disclosed that the BCC did not separately account for the expenditures of fuel taxes with different authorized uses accounted for in the County Transportation Trust Fund. In addition, we noted expenditures in the County Transportation Trust Fund that would not be allowable expenditures of every type of fuel tax. For example, the BCC paid \$14,000 during the period October 2011 through February 2013 from the County Transportation Trust Fund for the repair and maintenance of traffic signals. While these expenditures would be an authorized use of some types of fuel taxes, it would not be an authorized use of the County Fuel Tax noted above. In the absence of separate accountability for each type of fuel tax, there is an increased risk that fuel taxes may be used for unauthorized purposes.

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**Recommendation:** The BCC should establish separate accountability for each type of fuel tax to demonstrate fuel taxes were spent for authorized purposes.

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**Finding No. 7: Use of Law Enforcement Trust Fund Moneys**

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Pursuant to Section 932.7055(5)(a), Florida Statutes, the net proceeds from the sale of real and personal property seized by the Okaloosa County Sheriff (Sheriff) in accordance with the Florida Contraband Forfeiture Act must be deposited in a special law enforcement trust fund (LETF) established by the BCC. The proceeds and any interest earned thereon must be used for school resource officer, crime prevention, safe neighborhood, drug abuse education and prevention programs, or for other law enforcement purposes, which include defraying the cost of protracted or complex investigations, providing additional equipment or expertise, purchasing automated external defibrillators for use in law enforcement vehicles, and providing matching funds to obtain Federal grants. The moneys may not be used for the Sheriff's normal operating expenses.

Pursuant to Section 932.7055(5)(b), Florida Statutes, the BCC may spend LETF moneys based upon the Sheriff's request, provided that it is accompanied by a written certification that the request complies with the provisions of law, and only upon appropriation to the Sheriff by the BCC. Pursuant to Section 932.7055(5)(c), Florida Statutes, an agency or organization, other than the Sheriff, that wishes to receive such moneys must apply to the Sheriff for an appropriation, and its application must be accompanied by a written certification that the moneys will be used for an authorized purpose. Moneys provided to other organizations may only be spent for school resource officer, crime

prevention, safe neighborhood, drug abuse education and prevention programs, or such other law enforcement purposes as the BCC determines to be appropriate.

Prior to September 2012, the BCC had not adopted written LETF procedures. In September 2012, the BCC adopted procedures for the approval, use, and accounting of LETF moneys. These procedures require the Sheriff to submit a recommendation to the BCC that describes the disbursement, indicates the type and authorized category of the disbursement, and includes any supporting documentation relating to the disbursement. In the case of a donation to an agency or organization, the procedures also require the Sheriff to submit the application from the agency or organization stating the purpose of the moneys requested. Each of the Sheriff's recommended disbursements from the LETF are subject to BCC approval, and receipts for all items purchased or donations made to an agency or organization must be filed with the CCC within 60 days of the expenditure. In addition, a receiving agency or organization is required to provide the CCC with an accounting of how the moneys were used.

During the period October 2011 through February 2013, the BCC disbursed \$349,000 to the Sheriff from the LETF. Our review disclosed that the BCC approved certain disbursements of these moneys without obtaining adequate supporting documentation to evidence that the disbursements were used for allowable purposes. For example:

- Prior to September 2012, the BCC approved the disbursement of \$74,150 in LETF moneys to the Sheriff based solely upon listings of disbursements to vendors and other organizations previously made by the Sheriff. The BCC did not obtain documentation, such as invoices or receipts, to substantiate these disbursements, which included \$20,350 in donations and sponsorships provided to organizations; \$8,677 paid to vendors or provided to other organizations without a description of the purpose of the payments; \$1,600 provided to an organization for "various events in fiscal year 2012;" and \$1,000 provided to an organization for a "wild game feast and hunt." Although the Sheriff certified that the disbursements complied with the provisions of Section 932.7055, Florida Statutes, BCC records did not evidence the BCC's determination that these disbursements were allowable under those provisions.
- In September 2012, the BCC approved the disbursement of LETF moneys to reimburse the Sheriff for such items as a \$1,000 donation to an organization's "Take Stock in Children Fund Raiser," a \$1,000 donation to an organization's "Strong Kids and Families Campaign," and a \$100 hole sponsorship at an organization's golf tournament for the "Annual Caddyshack Classic Fundraiser for Take a Kid Fishing Day." Although the BCC did obtain documentation to substantiate these disbursements previously made by the Sheriff, and the Sheriff certified that the disbursements complied with the provisions of Section 932.7055, Florida Statutes, BCC records did not evidence the BCC's determination that these disbursements were allowable under those provisions.
- Subsequent to September 2012, the BCC approved the disbursement of \$118,000 from the LETF to the Sheriff to pay a portion of the costs of insurance premiums, severance pay, and leave payouts for ten employees who terminated as part of the Sheriff's plan to reduce the work force. The BCC determined that the request represented an allowable use of LETF moneys under the "other law enforcement purposes" provision of Section 932.7055(5)(a), Florida Statutes. However, this Section specifically prohibits using these moneys to pay normal operating expenses of the Sheriff, and BCC records did not evidence how the BCC determined that these costs were not normal operating expenses of the Sheriff. In addition, BCC records did not evidence that the CCC was provided subsequent documentation, such as the Sheriff's payroll records, to substantiate these disbursements.
- Subsequent to September 2012, BCC records did not evidence that the CCC was provided documentation, such as the invoices or receipts, to substantiate a \$982 disbursement made to share a percentage of LETF moneys with a city police department who provided a detective to the County drug task force.
- Subsequent to September 2012, the BCC approved the disbursement of \$17,690 in LETF moneys to the Sheriff based on requests for funding from other organizations including the Alauqua Animal Refuge; Mental Health Association of Okaloosa/Walton Counties; S4P Synergy, Inc.; Emerald Coast Children's Advocacy Center; and Dr. Martin Luther King, Jr. Celebration Committee. However, BCC records did not evidence

that these organizations provided the CCC with an accounting of how the moneys were used, contrary to BCC procedures. As such, BCC records did not evidence the BCC’s determination that these disbursements were allowable under the provisions of Section 932.7055, Florida Statutes.

The risk that LETF moneys will be used for unallowable purposes increases when adequate support is not obtained for the Sheriff’s disbursement requests.

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**Recommendation:** The BCC should continue its efforts to obtain adequate support for all disbursements from the LETF, document its decision as to how the disbursements represent allowable uses of LETF moneys in accordance with the provisions of law, and provide such documentation to the CCC. In addition, the BCC should ensure that organizations receiving LETF moneys provide the CCC with the required accounting of the use of LETF moneys.

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<b>Procurement</b>
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**Finding No. 8: Procurement of Professional Services**

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BCC policies and procedures require that requests for proposals or qualifications be issued to competitively procure professional services. When only one company can provide specific professional services, BCC policies and procedures require that a sole source data sheet be completed by the requesting department and approved by the Purchasing Director to document that competitive procurement is not possible.

Our tests of the procurement process for two professional services contracts entered into during the period October 2011 through February 2013 disclosed that the BCC entered into a \$447,360 annual contract with a company that provided animal control services without soliciting requests for proposals from other companies. Although BCC personnel indicated that these services were unique and could only be obtained from this company, no sole source data sheet was completed by the requesting department or approved by the Purchasing Director, contrary to BCC policies and procedures. Failure to document that only one company can provide specific professional services increases the risk that contractual services may not be obtained at the lowest cost consistent with acceptable quality. We noted a similar finding in report No. 2013-085 (finding No. 7).

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**Recommendation:** The BCC should ensure that professional services are competitively procured or document the reason competitive procurement is not possible in accordance with its policies and procedures.

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**Finding No. 9: Contractual Services**

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The BCC routinely enters into contracts for services as part of its normal operations. Consequently, establishing effective internal controls over contractual services is important to ensure that contracts are properly designed; contract payments are adequately supported, approved, and monitored; and contract renewals are properly executed in accordance with contract provisions and BCC policies and procedures.

Our review of 16 contracts in effect during the period October 2011 through February 2013, and 39 payments totaling \$3 million related thereto, disclosed deficiencies in internal controls over contractual services as follows:

**Contract Design.** As a matter of good business practice, contracts should be designed to adequately protect the interests of the contracting parties. Our review disclosed certain contracts that did not contain provisions to adequately protect the BCC’s interests, as follows:

- A contract with a law firm, for which the firm was paid \$616,893 during the period October 2011 through February 2013, did not include contract provisions requiring the firm to maintain professional liability insurance to protect the BCC against negligence or errors and omissions on the part of the firm.
- Two contracts, one with a company to provide animal control services, for which the company was paid \$582,500 during the period October 2011 through February 2013, and one with a company to provide inmate commissary services, for which the company was paid \$416,634 during the period October 2011 through February 2013, did not provide for termination of the contract for cause that would allow the BCC to terminate the contracts if the companies failed to perform their duties in an acceptable manner.
- A contract with a government relations and public affairs consulting company, for which the company was paid \$75,238 during the period October 2011 through February 2013, did not include record retention requirements or a contract provision allowing the BCC to audit the records of the company related to the contract in the event questions arose about whether the contractor had adequately performed all services required by the contract.

In the absence of such provisions, the BCC may be exposed to unnecessary risks or limited in their recourse should disagreements arise with other contracting parties. We noted a similar finding in report No. 2013-085 (finding No. 8).

**Support for Contract Payments.** As a matter of good business practice, contract payments should be supported by adequately detailed invoices or other documentation to evidence that the goods and services were actually provided and that the payment is in accordance with the terms and conditions of the contract. We noted the following contract payments during the period October 2011 through February 2013 that were not adequately supported at the time the invoices were approved and paid:

- \$196,313 of payments to a contracted advertising firm for airport-related advertisements placed on behalf of the BCC that were not supported by invoices or confirmations from the advertising provider evidencing the services were actually provided.
- \$27,912 of payments to a contracted engineering firm for services provided by a subcontractor that were not supported by invoices from the subcontractor evidencing the services were actually provided. Additionally, \$1,173 of payments for out-of-pocket expenses billed by the firm were not supported by receipts or other documentation.

In the absence of adequate supporting documentation for contract payments, there is an increased risk that such payments may be made for services that were unallowable, not in accordance with the terms and conditions of the contract, or not provided. We noted a similar finding in report No. 2013-085 (finding No. 9).

**Approval of Contract Payments.** BCC policies and procedures generally require that department directors approve all contract payments and that the County Administrator additionally approve all contract payments of \$25,000 or more. A payment approval form was typically used to document these approvals. We noted 11 contract payments, totaling \$873,144, which were not signed or initialed as approved by the department director, including 4 contract payments in excess of \$25,000 each that were also not approved by the County Administrator, contrary to BCC policies and procedures. A payment approval form was not prepared and approved for several of the payments, and the remaining payments were either approved by a department director's designee or were stamped as approved. In addition, 4 of these payments contained inadequately supported costs as discussed above. When contract payments are not approved as required by BCC policies and procedures, there is an increased risk that payments may be made for services that are unallowable, not in accordance with the terms and conditions of the contract, or not provided. We noted a similar finding in report No. 2013-085 (finding No. 12).

**Monitoring of Contract Payments.** The BCC generally did not encumber contracts in the accounting system as a means to control payments made on each contract. As a result, the BCC had not established an effective encumbrance system that would prevent contract overpayments. In the absence of such controls, there is an

increased risk that the BCC may make contract payments in excess of the maximum amount stipulated in contracts. While our review did not disclose any contract overpayments, our review cannot substitute for effective management controls.

**Contract Renewals.** BCC policies and procedures in effect during the period October 2011 through February 2013 did not address who was required to approve contract renewals or how long contracts could be renewed. We noted one contract (for airport-related advertising services) that was renewed based on the approval of a department director rather than the BCC. We also noted two contracts (for airport-related advertising services and teen court services) that were renewed although the initial contract contained no renewal provisions, and five contracts (for engineering, consulting, inmate food, inmate medical, and public transit services) for which the renewal period allowed by the initial contract was exceeded. In April 2013, the BCC adopted new policies and procedures relating to contract renewals that: 1) require the BCC to approve all contract renewals for contracts in which the BCC originally approved the contract; 2) require the initial contract to include a renewal provision; and 3) prevent contracts from being renewed for a time period exceeding that provided in the initial contract.

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**Recommendation:** The BCC should strengthen its procedures to ensure that all contracts include adequate provisions to effectively protect the interests of the BCC; contract payments are properly supported at the time the payments are approved and paid; required approvals are obtained for all contract payments in accordance with BCC policies and procedures; contract payments are properly monitored and do not exceed maximum amounts stipulated in the contracts; and contract renewals are properly executed in accordance with contract provisions and BCC policies and procedures.

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#### **Finding No. 10: Questioned Expenditures**

Expenditures of public funds must be shown to be authorized by applicable law or resolution; reasonable in the circumstances and necessary to accomplish authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. Additionally, the Attorney General has indicated on numerous occasions that documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds. The Attorney General has further indicated that unless such documentation is present, the request for payment should be denied.

**Promotional Expenditures.** Our review of \$283,000 in promotional activity expenditures during the period October 2011 through February 2013 disclosed \$33,368 of expenditures for which BCC records at the time of the disbursement did not adequately document the authorized public purpose served, as follows:

- \$17,500 for 50 airline gift cards valued at \$350 each.
- \$3,500 sponsorship of a local auction.
- \$3,000 for a corporate sponsorship for a golf tournament.
- \$2,055 for t-shirts worn by County employees during a local 5K run.
- \$2,000 sponsorship table for an all sports banquet.
- \$1,800 breakfast sponsorship of a local chamber of commerce.
- \$1,000 corporate table at a local chamber of commerce annual dinner.
- \$1,000 sponsorship of a local 5K run.
- \$500 corporate sponsorship of a local rotary club golf tournament.

- \$500 sponsorship of a neighboring county cooking school event.
- \$263 for peace lilies at a local chamber of commerce breakfast.
- \$250 for a sponsorship of a local chamber of commerce.

In addition, the BCC had not established written procedures over the distribution and use of the above-noted airline gift cards. When such procedures are not established, there is an increased risk that gift cards may not be used in accordance with the BCC's intentions, and when the authorized public purpose of expenditures is not adequately documented, the BCC has not demonstrated that the use of public funds is appropriate.

Similar findings were noted in report No. 2013-085 (finding No. 9), in finding Nos. 11 and 14 of this report, and by the County's external auditors in the County's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2012.

**Training-Related Expenditures.** The BCC provides periodic training to its employees and recorded \$141,000 in training-related expenditures for the period October 2011 through February 2013. Our testing of BCC expenditures included \$6,201 in training expenditures related to three training events for which we noted the following:

- The BCC spent \$3,605 in food and beverages for employees who attended two local management retreats at a County-owned facility.
- The BCC spent \$2,596 for equipment and facility rental, food, beverages, and service charges incurred in connection with law enforcement training provided to BCC employees and law enforcement personnel from outside the County. The training was held at a local resort.

BCC records did not evidence the public purpose served by paying for the employees' food and beverages or why it was necessary to pay for facility and equipment rentals at a local resort when its own facilities could have been used at no cost. Upon inquiry, BCC personnel indicated that providing food and beverages as part of training activities ultimately benefited the public through increased productivity, efficiency and task effectiveness. However, BCC records did not demonstrate that providing food and beverages to employees increased productivity, efficiency, or task effectiveness or was necessary to accomplish the training. BCC personnel further indicated that the law enforcement training was held at the same location where visiting law enforcement personnel and trainers were staying. Although providing training at the local resort was convenient to attendees, BCC records did not demonstrate why the training could not have been provided at County facilities.

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**Recommendation:** The BCC should strengthen its procedures to ensure that the authorized public purpose of expenditures is adequately documented in BCC records and establish written procedures over the distribution and use of promotional gift cards. The BCC should also document the necessity of providing food and beverages to employees attending training and paying for facility and equipment rentals when its own facilities are available.

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### **Finding No. 11: Purchasing Card Controls**

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The BCC provided purchasing cards (p-cards) to approved employees in an effort to efficiently and effectively process and expedite low dollar purchases of goods and services, and the BCC established policies and procedures to provide guidelines on the proper use of p-cards. During the period October 2011 through February 2013, the BCC purchased \$3.9 million in goods and services using p-cards.

Our tests of 43 such p-card purchases totaling \$42,767 disclosed the following:

- The BCC's p-card policies and procedures required the p-card holder and reviewer to sign a preprinted statement on monthly p-card expenditure reports certifying that they reviewed the expenditure report, that it correctly reflects the supporting receipts, and that all purchases made were for official County business and in accordance with applicable rules and directives. The 43 p-card purchases we reviewed were included on 33 p-card expenditure reports. For 23 (70 percent) of the 33 p-card expenditure reports reviewed, which included p-card purchases totaling \$14,766, the preprinted statement was not included. As a result, the required certifications were not made.
- For 12 (28 percent) of the 43 purchases totaling \$6,912, BCC records did not document approval by an employee other than the p-card holder.
- The BCC's p-card policies and procedures indicated the maximum single transaction limit was \$999.99 for regular p-card holders and \$2,500 for select pre-approved p-card holders. For 2 (5 percent) of the 43 purchases, the purchase of auto parts totaling \$9,248 exceeded the p-card holder's single transaction limit recorded in the BCC's p-card records. Contrary to the BCC's policies and procedures, BCC personnel indicated that they chose not to implement single transaction limit features in the p-card application software so that, in the event of an emergency, the cardholders could have access to their full monthly transaction limits.
- For 13 (30 percent) of the 43 purchases, goods or services totaling \$11,974 were not immediately provided to the purchaser (e.g., Internet or telephone orders), and BCC p-card records did not evidence that the goods or services were subsequently received prior to payment.
- For 7 (16 percent) of the 43 purchases, purchases totaling \$2,964 were not supported by detailed receipts or explanations that clearly documented the authorized public purpose. These purchases included \$1,300 in gift cards given away at a County Christmas party and \$720 in gift cards given away at events to promote one of the airlines at one of the County airports. In April 2013, the BCC revised its p-card policies and procedures to require that the authorized public purpose of all p-card expenditures be documented on p-card expenditure reports.

We also reviewed the dates that p-cards were canceled for 15 BCC employees who terminated employment during the period October 2011 through February 2013. Our review disclosed 2 instances (13 percent) in which p-cards were not canceled until 15 and 99 days, respectively, after the employees terminated.

In the absence of effective controls over p-card purchases, there is an increased risk that p-card purchases may be made that are not in accordance with the BCC's p-card policies and procedures or that do not serve an authorized public purpose. We noted a similar finding in report No. 2013-085 (finding No. 13).

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**Recommendation:** The BCC should strengthen its p-card policies and procedures to ensure that an independent review and approval is documented for all purchases; p-card expenditure reports include the required statement that employees and reviewers have certified they reviewed the applicable p-card expenditure report, the report is supported by receipts, all purchases made were for official County business, and the purchases were in accordance with applicable rules and directives; single transaction limits have not been exceeded; prior to payment, employees have acknowledged the receipt of goods and services purchased; BCC records evidence the authorized public purpose served by the expenditures; and p-cards for terminated employees are timely canceled.

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### Finding No. 12: Advance Payments

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Pursuant to Article VII, Section 10 of the State Constitution, the BCC may not become a joint owner with, or stockholder of, or give, lend, or use its taxing power or credit to aid any corporation, association, partnership, or person. As noted by the Attorney General in various opinions<sup>2</sup>, the purpose of this provision is “to protect public

<sup>2</sup> For example, see Attorney General Opinion No. 2012-26.

funds and resources from being exploited in assisting or promoting private ventures when the public would be at most only incidentally benefited.” Section 28.235, Florida Statutes, provides that the CCC can make advance payments on behalf of the BCC for goods and services pursuant to rules or procedures adopted by the State Chief Financial Officer (CFO) for advance payment of invoices submitted to State agencies. The CFO established such rules and procedures in the *Reference Guide for State Expenditures*, which provides that advance payments may be made if the payments result in a savings that is equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments are essential to the operations of the agency and the goods or services are available only if advance payment is made.

Our tests of seven advance payments totaling \$305,000, for goods and services purchased during the period October 2011 through February 2013, disclosed five advance payments totaling \$246,500 for which BCC records did not evidence that the payments met the CFO criteria noted above. For example, our tests included two advance quarterly payments totaling \$233,000 to a company that provided animal control services. The BCC approved \$582,000 in advance quarterly payments to this company during the period October 2011 through February 2013. In response to our inquiry, BCC personnel indicated that advance payments were made to the company to provide up-front funding to help the company meet their quarterly obligations associated with the contract; however, BCC records did not include documentation demonstrating the need for up-front funding. Nor did BCC records evidence that these payments resulted in a savings equal to or greater than the amount that would have been earned by investing the funds and paying later, or were essential to the operations of the County and the services were available only if advance payment was made.

When goods and services are unnecessarily paid for in advance of their receipt, there is an increased risk that the goods or services may not be provided, and the BCC’s recourse may be limited should disagreements arise between the BCC and the vendor. We noted a similar finding in report No. 2013-085 (finding No. 11).

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**Recommendation:** The BCC should strengthen policies and procedures to ensure that advance payments are approved and paid only if the payments result in a savings that is equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments are essential to the BCC’s operations and the goods or services being paid for are available only if advance payment is made.

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Travel
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**Finding No. 13: Travel Allowances**

Section 112.061(7)(d), Florida Statutes, provides that an authorized traveler using a privately owned vehicle for official business is entitled to be reimbursed for mileage, and Section 112.061(7)(f), Florida Statutes, provides that a monthly travel allowance may be granted in fixed amounts to the traveler in lieu of the mileage reimbursement provided for in Section 112.061(7)(d), Florida Statutes. Such allowances must be reasonable and made on the basis of a signed, typical month’s travel statement (statement) filed by the traveler before the allowance is granted or changed, and at least annually thereafter. The statement must show the places and distances for an average typical month’s travel on official business, and the amount that would be allowed under the approved rate per mile for the travel shown on the statement.

During the period October 2011 through February 2013, the BCC provided monthly travel allowances to five County Commissioners ranging from \$300 to \$442 and totaling \$21,300. Our review of the required statements filed by the County Commissioners supporting the monthly travel allowances disclosed the following:

- One County Commissioner claimed a monthly mileage allowance from October 2011 to July 2012 based on a statement filed in the 2006 calendar year. One former County Commissioner claimed a monthly mileage allowance from October 2011 to September 2012 based on a statement filed in the 2007 calendar year. Also, BCC personnel indicated one former County Commissioner claimed a monthly mileage allowance from October 2011 through October 2012 based on a statement filed in the 2002 calendar year. However, BCC personnel could not locate the 2002 statement for our review. Statements should be prepared at least annually in accordance with Section 112.061(7)(d), Florida Statutes. As of February 28, 2013, all current County Commissioners had submitted updated statements.
- One County Commissioner claimed a monthly mileage allowance that included travel from Fort Walton Beach, the location of his office in the south end of the County, to the County seat of Crestview in the north end of the County, and to other locations throughout the County. The Attorney General, in Opinion No. 83-37, concluded that the official headquarters of county commissioners for purposes of Section 112.061, Florida Statutes, is the county seat where the principal offices of the BCC are located. As such, the mileage allowance should have been calculated based on the lesser of the actual distance traveled or the actual distance from the County seat of Crestview to the travel destination.
- One County Commissioner and one former County Commissioner claimed monthly mileage allowances that included travel from the city or town of their personal residences to locations throughout the County. However, the Attorney General has, most recently in Opinion No. 90-22, consistently interpreted the provisions of Section 112.061, Florida Statutes, to authorize reimbursement for travel expenses incurred only for travel away from the traveler’s official headquarters and not from their home. As such, the mileage allowance should have been calculated based on the lesser of the actual distance traveled or the actual distance from the County seat of Crestview to the travel destination.
- The specific origin, destination, and purpose of the travel listed on the statements were not consistently recorded. For example, one County Commissioner filed a statement on February 4, 2013, that included 75 miles per month for various meetings with citizens, government leaders, and business leaders, and another County Commissioner filed a statement on August 8, 2012, that included 100 miles per month of miscellaneous travel. However, in these instances, the County Commissioners did not record the origin, destination, or specific purpose of the travel on their statements. The origin, destination, and specific purpose of the travel should be recorded on the statements to demonstrate that the travel was typical and that the mileage claimed was reasonable.

BCC personnel indicated that they were unfamiliar with the mileage limitations described in the Attorney General opinions above.

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**Recommendation:** The BCC should strengthen its procedures to ensure that travel allowances are paid based on typical month’s travel statements that are updated annually, include sufficiently detailed information, and are correctly calculated in accordance with the provisions of law and guidance provided in applicable Attorney General opinions.

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<b>Contributions</b>
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**Finding No. 14: Contributions to Private Nonprofit Corporations**

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The Attorney General, in Opinion No. 2002-18, indicated that the courts and the Attorney General’s Office recognize that the BCC may carry out a public purpose through private nonprofit corporations and public agencies provided the BCC or the courts make a factual determination that an authorized public purpose will be accomplished and some degree of control is retained by the BCC to ensure the authorized public purpose is accomplished.

During the period October 2011 through February 2013, the BCC made contributions totaling \$315,000 to nine different private nonprofit corporations. These organizations included the Destin Fishing Museum Foundation, Inc.; Heritage Museum Association, Inc.; Judge Ben Gordon, Jr. Family Visitation Center; North Okaloosa Historical

Association, Inc.; Northwest Florida Comprehensive Services for Children, Inc.; Okaloosa County Comprehensive Head Start Child Development, Inc.; Okaloosa County Council on Aging, Inc.; Okaloosa-Walton Child Care Services, Inc.; and Shelter House, Inc.

Our review disclosed that the BCC had not adopted written policies or procedures addressing criteria to be used to make contributions to private nonprofit corporations, the methodology for calculating the amount of the contributions, or the responsibilities of the corporations receiving the contributions to provide an accounting as to how the contributions were ultimately used. In addition, the BCC did not consistently document how the contributions noted above served an authorized public purpose, require any of these corporations to enter into a written agreement stating the purpose for which the contributions should be used, or obtain a subsequent accounting from these corporations as to how the contributions were ultimately used. BCC personnel indicated that disbursements were donations to these nonprofit corporations directly benefiting the citizens of Okaloosa County and that the donations did not carry designated earmarks for certain expenses or projects. However, providing contributions for undesignated purposes may result in BCC moneys being used for nonpublic purposes.

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**Recommendation:** The BCC should adopt written policies and procedures addressing criteria to be used to make contributions to private nonprofit corporations, the methodology for calculating the amount of the contributions, and the responsibilities of the corporations receiving the contributions to provide an accounting as to how the contributions were ultimately used. In addition, the BCC should document how each contribution serves an authorized public purpose and obtain a subsequent accounting from each corporation to document that the authorized public purpose was accomplished.

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<b>Motor Vehicles</b>
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**Finding No. 15: Fuel Card Purchases**

The BCC operated 360 vehicles during the period October 2011 through February 2013, and the BCC assigned fuel cards to each of these vehicles to allow employees to fuel the vehicles as needed. One type of fuel card allowed vehicles to be fueled at County-operated fuel sites, and the other type of fuel card allowed vehicles to be fueled at retail locations accepting MasterCard. Each month, the Fleet Operations Department charged BCC departments for fuel purchases based on invoices received from the fuel card vendor.

During the period October 2011 through February 2013, BCC departments were charged \$850,000 for fuel based on fuel card invoices from retail locations. Our review of fuel charges totaling \$350,000 for the Roads Division within the Public Works Department and the Water and Sewer Department, and the procedures used by BCC personnel to ensure the propriety of these charges, disclosed that monthly reconciliations of the invoice from the fuel card vendor to receipts from retail locations were not performed. In addition, receipts from retail locations were not retained by these departments. In late February 2013, the County Administrator notified all departments that such reconciliations should be performed and documented, that receipts should be submitted and retained, and that this documentation should be retained for three years.

In the absence of reconciliations of the invoice from the fuel card vendor to receipts from retailers, the BCC cannot be assured that fuel charges incurred at retail locations were accurately invoiced by the fuel card vendor or that fuel costs were accurately charged to BCC departments. We noted a similar finding in report No. 2013-085 (finding No. 21).

**Recommendation:** The BCC should continue its efforts to strengthen controls over the use of fuel cards by requiring BCC departments to retain all receipts from retail locations and perform reconciliations of fuel charges to those receipts.

## OKALOOSA COUNTY CLERK OF THE CIRCUIT COURT

### Organizational Oversight

#### Finding No. 16: CCC Duties and Responsibilities

As discussed in the Background section of this report, the BCC spent \$281 million during the period October 2011 through February 2013 and, as the BCC's auditor, the CCC processed and paid these expenditures. In finding Nos. 10, 11, and 14, we noted certain BCC disbursements for which BCC records did not adequately document the authorized public purpose served. CCC records did not indicate that the CCC questioned the authorized public purpose of these disbursements or denied payment of the invoices. In addition, in finding Nos. 9 and 10, we noted certain BCC disbursements for services that were not adequately supported at the time payment was made. In response to our inquiry about the public purpose served by certain promotional expenditures, CCC personnel indicated that the department director makes the initial judgment as to whether an expenditure serves an authorized public purpose, and that the department director generally has some communication and possibly some documentation of vetting the expenditures with County management, the County purchasing department, or the CCC's office. In addition, CCC personnel stated that although there may not be an explanation of the authorized public purpose in the documentation supporting a recurring expenditure in the current fiscal year, there may have been some documentation supporting the same type of expenditure in prior fiscal years.

Under Article VIII, Section 1(d), of the State Constitution, the CCC serves as auditor and custodian of all county funds. The Attorney General, in Opinion No. 70-134, discussed the CCC's duties and responsibilities as auditor of the county's expenditures by stating “[t]he auditing function of the clerk includes more than the arithmetical determination as to the amount of the claim being presented for payment, and the clerk has a duty to determine the legality of an expenditure before dispensing public funds. When an examination by the clerk as auditor of a particular claim presented for payment leads him to believe that the expenditure is not authorized by law, or is otherwise illegal, the clerk may properly withhold his approval of payment. This action by the clerk is in accord with the apparent purpose of the constitutional provision, making the clerk of the circuit court ex officio auditor of the county, which is to provide a check and balance system that insures proper expenditure of public funds.” The Attorney General further stated, in Opinion No. 88-61, “...it is clearly within the duty and responsibility of the circuit court clerk acting as county auditor to make a determination of the legality of the claims which are presented for payment by the clerk as custodian of the county funds in order to pay only those obligations which are proper expenditures of public funds.”

The Attorney General has indicated on numerous occasions that documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds. The Attorney General has further indicated that unless such documentation is present, the request for payment should be denied. When the CCC pays claims on behalf of the BCC for vouchers that are inadequately supported or that do not adequately identify the authorized public purpose served, the CCC has not demonstrated performance of his constitutional duties, and County records do not evidence that the obligations paid were proper expenditures of public funds.

**Recommendation:** The CCC should ensure that adequate documentation accompanies each BCC payment voucher to document the validity, legality, and authorized public purpose of the expenditures, or deny payment of the expenditures until such documentation is provided.

**Finding No. 17: Internal Auditing**

Under the authority of Article III, Section 1(d) of the State Constitution, the CCC serves as both auditor and custodian of all County funds. The CCC established and maintained an Internal Audit Department, comprised of an Internal Audit Director and a Tourist Development Tax Auditor. Our review of CCC records and inquiries of the Internal Audit Director disclosed that improvements could be made to increase the effectiveness of the Internal Audit Department as discussed below.

The CCC had not adopted policies or procedures governing the operations of the Internal Audit Department. In addition, the Internal Audit Department did not prepare periodic work plans that detailed the Department’s planned audits or work activities. During the period October 2011 through February 2013, the Internal Audit Department’s activities included, among other activities, reviewing the collection of tourist development taxes by applicable businesses within the County; preparing schedules, performing inventory counts, and providing other assistance to the County’s external financial statement auditors; and performing research or reviews as requested by department heads, the Finance Director, the County Administrator, or the CCC. The Internal Audit Department did not issue any formal audit reports to the CCC. Rather, the Department’s final work product consisted primarily of memoranda or e-mails addressed to the external auditors or the employees requesting the reviews. Similar findings were noted by the CPA firm contracted by the County to conduct fraud and control risk assessments for BCC operations (see additional discussion in finding Nos. 1 and 18).

Policies and procedures that address, among other matters, the authority and responsibilities of the Internal Audit Department; the professional standards by which internal audits will be performed; the process by which departments, programs, and functions of the CCC and BCC are selected for audit; and the method and format of reporting to the CCC would establish foundational guidance and direction for the operation of the Department. In addition, work plans that are based on documented risk assessments of the various areas of CCC and BCC operations, include the input of CCC and BCC management, and are approved by the CCC, would serve as an important tool in ensuring that the Internal Audit Department’s resources are used effectively.

**Recommendation:** The CCC should adopt policies and procedures governing the operations of the Internal Audit Department and approve periodic work plans that detail the Department’s planned audits and work activities.

**Fraud and Ethics Controls/Risk Assessments**

**Finding No. 18: Fraud Controls and Risk Assessments**

As discussed in the Background section of this report, the CCC is responsible for collecting, accounting for, and making disbursements from various resources, including making disbursements on behalf of the BCC. The CCC has established various departments to carry out these responsibilities. Performing periodic risk assessments can help to identify and analyze fraud risks and control weaknesses, such as those noted throughout this report, and help ensure that adequate internal controls are in place to minimize fraud risks and control weaknesses that could adversely affect the CCC’s operations.

Upon inquiry, the CCC indicated that no risk assessments had been performed and documented for CCC departments. However, the CCC indicated that the Internal Audit Director has now been tasked with the responsibility to establish policies and procedures related to risk assessments. Once these policies and procedures have been completed, approved, and adopted, all CCC departments will undergo such risk assessments. In addition, in April 2013, the BCC engaged a CPA firm in part to perform fraud and control risk assessments related to the BCC's operations, which included accounting activities performed by the CCC on behalf of the BCC. The CPA firm's report, dated August 26, 2013, identified several risks relating to the accounting activities performed by the CCC on behalf of the BCC and provided recommendations in response to those risks for the BCC's consideration.

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**Recommendation:** The CCC should ensure that periodic fraud and control risk assessments are performed and documented for all CCC departments. The CCC should also consider the risk assessments obtained by the BCC.

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**Finding No. 19: Conflicts of Interest**

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Pursuant to Section 112.313(3), Florida Statutes, no CCC employee acting in his or her official capacity as a purchasing agent, or public officer acting in his or her official capacity, may either directly or indirectly purchase, rent, or lease any realty, goods, or services for the CCC from any business entity in which the officer or employee or the officer's or employee's spouse or child is an officer, partner, director, or proprietor, or in which such officer or employee or the officer's or employee's spouse or child, or any combination of them, has a material interest. Pursuant to Section 112.313(7)(a), Florida Statutes, no CCC officer or employee may have or hold any employment or contractual relationship with any business entity or agency that is subject to the regulation of, or is doing business with, the CCC. This Section further prohibits a CCC officer or employee from having or holding any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her public duties, or that would impede the full and faithful discharge of his or her duties.

The CCC had adopted policies and procedures that generally prohibit conflicts of interest and provide for disciplinary action if those policies are violated. However, the CCC had not adopted policies and procedures designed to identify and prevent potential conflicts of interest, such as requiring employees to disclose potential conflicts of interest. Upon inquiry, the CCC indicated that a very limited number of individuals in the CCC's office have the authority to make procurement decisions and, as a result, any potential conflicts of interest would be readily known and addressed if necessary. However, conflicts of interest can occur if any CCC employee has an employment or contractual relationship with a company that does business with the CCC, even if that employee does not have the authority to make procurement decisions. Policies and procedures designed to identify and prevent potential conflicts of interest would serve to provide additional assurance that purchases are not made from vendors in which a potential conflict of interest exists.

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**Recommendation:** The CCC should establish policies and procedures designed to identify and prevent potential conflicts of interest.

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<b>Electronic Commerce</b>
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**Finding No. 20: E-payables and Electronic Funds Transfers**

Section 668.006, Florida Statutes, requires the head of each governmental agency to implement control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. The CCC uses electronic funds transfers (EFTs) and an electronic card payment program called e-payables to make certain types of payments on behalf of the BCC, including payments to vendors and banking institutions. During the period October 2011 through February 2013, the CCC made EFTs totaling \$123 million, and processed e-payables, totaling \$926,000, on behalf of the BCC.

Our review disclosed that controls could be enhanced, as follows:

- The CCC had not adopted written policies and procedures addressing the authorization and processing of electronic commerce transactions.
- The funds transfer agreements with the financial institutions from which EFTs were made did not restrict the locations where BCC funds could be transferred or the dollar amount of repetitive EFTs, and allowed nonrepetitive EFTs up to \$20,000,000.
- The same employees who could initiate wire transfers also had the ability to input journal entries in the accounting system, allowing them both access to BCC assets and the accounting records for those assets.
- The funds transfer agreements allowed authorized employees to make EFTs without the preapproval of another employee.

Without written policies and procedures and adequate controls over electronic commerce, there is an increased risk that electronic commerce transactions could be made that are not authorized or in accordance with the intentions of the BCC or the CCC. While our tests did not disclose any such transactions for unauthorized purposes, such tests cannot substitute for effective management controls. We noted a similar finding in report No. 2013-085 (finding No. 23).

**Recommendation:** The CCC should adopt written policies and procedures addressing, and establish adequate controls over, electronic commerce transactions to ensure adequate integrity, security, confidentiality, and auditability of such transactions.

<b>Information Technology</b>
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**Finding No. 21: Access Controls**

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, creation, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, add, or delete data. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their area of responsibility. Periodically reviewing the appropriateness of access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources that are incompatible with their assigned job responsibilities.

Designated CCC employees were responsible for assigning access privileges to CCC and BCC IT resources. We noted in report No. 2013-085 (finding No. 24), certain deficiencies involving access controls to the BCC's IT resources. During this audit, our review of access controls to the CCC's IT resources also disclosed deficiencies. For

example, CCC personnel responsible for accounts payable and payroll processing were assigned access privileges that allowed them to record journal entries, change pay rate and other payroll information, and add to or change master vendor file information. The combination of these access privileges increases the risk that unauthorized payments may be made and not timely detected.

Upon inquiry, CCC personnel indicated that software limitations prevent the ability to restrict an employee's access to certain functions. As a result, an employee who needs access to a certain function within a software package often must be given access to all functions within the software package even if the other functions are unnecessary or incompatible with the employee's assigned job responsibilities. CCC personnel indicated that they had established procedures to compensate for the software limitations such as reviewing additions and changes to pay rate and other payroll information and to master vendor file information for propriety via transaction edit reports, and reviewing journal entries for propriety via "on-screen" reviews. However, CCC records did not document these reviews.

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**Recommendation:** The CCC should strengthen access control procedures to ensure that access privileges are only assigned to employees who require such access as part of their assigned job responsibilities. If incompatible access privileges must be granted to employees due to software limitations, the CCC should document and retain evidence that compensating controls, such as reviewing transaction edit reports for propriety, have been performed.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts 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. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee directed us to conduct this audit. Our report No. 2013-085, included our findings related to the BCC's oversight of the TDC, which is a BCC department. The scope of this audit did not include a review of TDC transactions.

We conducted this operational audit from March 2013 to July 2013 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.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment

has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of various records and transactions occurring from October 2011 through February 2013, and selected actions taken subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

**AUTHORITY**

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

**MANAGEMENTS' RESPONSES**

Managements' responses are included as Exhibits B and C.

**EXHIBIT A**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
BCC and CCC oversight duties and responsibilities.	Reviewed BCC and CCC controls over expenditures to determine whether the BCC and CCC were fulfilling their relevant constitutional, statutory, or other prescribed duties and responsibilities.
Internal auditing.	Determined whether CCC policies or procedures existed and periodic work plans had been prepared and approved to govern the operations of the CCC's Internal Audit Department.
Conflicts of interest.	Reviewed BCC and CCC conflict of interest policies and procedures to determine whether controls were adequate and examined various records to determine whether potential conflicts of interest existed.
Fraud controls and risk assessments.	Reviewed BCC and CCC fraud policies and procedures to determine whether controls were adequate and determined whether the BCC and CCC had performed recent risk assessments to identify and address potential risks.
Planning and performance measures.	Determined whether the BCC and CCC had developed strategic plans for future operations and implemented performance measures to gauge the effectiveness and efficiency of BCC and CCC operations.
Budgeting.	Reviewed BCC and CCC budgeting policies and procedures to determine whether controls were adequate and examined selected budget documents to determine whether budgets were adopted and amended in accordance with applicable laws, rules, and budget policies and procedures.
Restricted resources.	Reviewed BCC and CCC accounting records and tested selected expenditures from restricted resources to determine the adequacy of controls over the accounting for and use of restricted resources.
Procurement.	Reviewed BCC and CCC procurement policies and procedures (e.g., purchasing and credit card policies and procedures, competitive selection, travel) to determine whether controls were adequate and tested selected payments to determine whether the payments served an authorized public purpose and were made in accordance with applicable laws, rules, regulations, contracts, grant agreements, policies and procedures, and other guidelines.
Contractual services.	Reviewed BCC and CCC contracts and related payments to determine whether the contracts were procured in accordance with policies and procedures, whether contracts were adequately designed to protect their interests, whether contract renewals and amendments were properly executed, whether adequate monitoring procedures were performed, and whether contract payments were properly approved in accordance with applicable laws, rules, regulations, contracts, grant agreements, policies and procedures, and other guidelines.

**EXHIBIT A (CONTINUED)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Electronic commerce.	Reviewed CCC electronic commerce policies and procedures to determine whether controls were adequate and tested supporting documentation to determine whether selected electronic funds transfers were properly authorized and supported.
Journal entries.	Reviewed CCC journal entry policies and procedures to determine whether controls were adequate and tested selected journal entries to determine whether the journal entries were properly approved and adequately supported.
Motor vehicles.	Reviewed the BCC's fuel card policies and procedures to determine whether controls were adequate to ensure BCC assets were properly safeguarded.
Fund balance and working capital.	Determined whether the BCC had adopted fund balance and working capital policies and procedures and determined whether the general unrestricted fund balance and working capital in major enterprise funds were in accordance with best practices.
Public records.	Examined BCC and BCC advisory committee meeting minutes for evidence of compliance with selected Sunshine Law requirements (e.g., preparation and retention of official minutes).
Statements of financial interests.	Reviewed BCC and CCC policies and procedures to determine whether controls were adequate to ensure that all local officers completed required statements of financial interests.
Information technology controls.	For selected employees, determined the appropriateness and necessity of access privileges to CCC information technology resources related to journal entries, payroll records, and the master vendor file.

EXHIBIT B  
MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS



County Administrator's Office

State of Florida

November 13, 2013

David W. Martin  
Auditor General  
Local Government Audits/Section 342  
111 West Madison Street  
Tallahassee, FL 32399-1450

Re: Response to the Preliminary and Tentative Audit Findings and Recommendations of the Okaloosa County Board of County Commissioners and Okaloosa County Clerk of the Circuit Court

Dear Mr. Martin:

In response to the preliminary and tentative findings and recommendations provided by your office, enclosed is the response from the Okaloosa County Board of County Commissioners. As there were several findings which were directed to the operations of the Okaloosa County Clerk of the Circuit Court, those matters were not addressed by the County and it is our understanding that the Clerk of the Court will respond separately. The response contains written statements of explanation concerning each of the findings directed to the County and corrective actions taken and proposed by the Board of County Commissioners.

If you require any further information, please do not hesitate to contact us through the County Administrator's Office at 850-651-7515.

  
DON R. AMUNDS, CHAIRMAN  
BOARD OF COUNTY COMMISSIONERS

Enclosures

Okaloosa County Administration Building  
1804 Lewis Turner Blvd., Suite 400  
Fort Walton Beach, FL 32547  
(850) 651-7515 • FAX: (850) 651-7551  
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**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

**OKALOOSA COUNTY'S RESPONSE TO THE PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS OF THE OKALOOSA COUNTY BOARD OF COUNTY COMMISSIONERS AND OKALOOSA COUNTY CLERK OF THE CIRCUIT COURT**

The Board of County Commissioners is in receipt of the Preliminary and Tentative Audit Findings and Recommendations, dated October 17, 2013, which may be included in the operational audit of the Auditor General of the Okaloosa County Board of County Commissioners (BCC) and Okaloosa County Clerk of Court (CCC). Please find the Response of the Board of County Commissioners to the Preliminary and Tentative Findings and Recommendation.

*As reflected in the Preliminary and Tentative Audit Findings, the review parameters consisted of the period from October 2011 through February 2013. This review period overlaps with the period addressed in Report No. 2013-085 relating to the Tourist Development Department which was May 2010 through May 2012. Though the Tourist Development Department was excluded from this review, the Preliminary and Tentative Audit Findings identify several areas that were also the subject of Report No. 2013-085. As part of the Corrective Action Plan Report No. 2013-085, the County has previously addressed several of these through the amendment of its Purchasing Manual on April 2, 2013. The implementation of the corrective action plan resulting from Report No. 2013-085 is ongoing.*

**FRAUD AND ETHICS CONTROLS/RISK ASSESSMENTS**

**Finding No. 1:** The BCC had not performed and documented periodic fraud or control risk assessments of the operations of BCC departments, developed written action plans that implement and monitor needed controls, or included a fraud response plan in its policies and procedures.

**Recommendation:** The BCC should continue its efforts to ensure that periodic fraud and control risk assessments are performed and action plans are prepared to implement and monitor needed controls. In addition, the BCC should enhance its anti-fraud program policies and procedures to include a written fraud response plan.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendation.*

*As noted in the Finding, these matters were previously addressed in Report No. 2013-085 (See Findings 5 and 6). As with our response at that time, the County indicated it will review and consider the amendment of its current code of conduct and whistleblower policies to include a written fraud response plan that addresses investigation protocols and guidance on reporting known or suspected fraud to the appropriate authorities.*

*In response to those previous Findings, the County, in April 2013, retained an independent CPA firm to conduct fraud and control risk assessments related to the County's operations, including accounting activities for the County performed by the CCC. The CPA firm has issued a report dated August 26, 2013 that has identified several fraud risks and control weaknesses and provided*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

*recommendations to the BCC. The County is continuing to study this report and its recommendations. It is also considering other areas that may be addressed in the future.*

*The County is also reviewing and considering the implementation of an annual fraud risk assessment and fraud controls monitoring. In furtherance of this monitoring, the County has researched and determined the Association of Certified Fraud Examiners has a Fraud Risk Assessment tool that can be used by Okaloosa County to strengthen its anti-fraud program. The County will consider the implementation of this or similar fraud assessment tools which can be utilized to enhance its fraud controls.*

**Finding No. 2:** Several BCC employees did not file a statement of financial interests with the Okaloosa County Supervisor of Elections, contrary to law.

**Recommendation:** The BCC should ensure that all BCC local officers, as defined in Section 112.3145(1), Florida Statutes, are advised of the requirement to file a statement of financial interests and that the names and positions of applicable local officers are communicated to the Commission.

**COUNTY RESPONSE:**

*The County agrees that all BCC local officers should be advised of the requirement to file a statement of financial interests and in accordance with section 112.3145(7)(a), F.S., and the County complies with Florida law by notifying each newly appointed local officer of their duty to comply with the disclosure requirements of section 112.3145, F.S. The County will take any additional actions deemed necessary to comply with section 112.3145, F.S.*

**Finding No. 3:** BCC policies and procedures were not adequate to identify and prevent potential conflicts of interest.

**Recommendation:** The BCC should enhance its policies and procedures, as needed, to identify and prevent potential conflicts of interest. Such policies could include, for example, requiring employees to disclose potential conflicts of interest.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendation.*

*As noted in the Finding, as part of the corrective action plan implemented by the County in response to Auditor General Report No.2013-85, issued in January 2013, the County adopted significant revisions to its Purchasing Manual on April 2, 2013. The purpose of these changes was to apply many of the controls that were implemented for the Tourist Development Department to all other departments of the County.*

*In particular, the County amended Section C of the Purchasing Manual which strictly prohibits employees from engaging in any conduct or business that present a conflict of interest. Though the amendment requires a Conflict of Interest Disclosure by any supplier of goods and services in excess of \$2500, the amendment prohibits any direct or indirect participation in the procurement process by an*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

*officer or employee where there is any financial interest by that officer or employee or any member of their family, regardless of the amount. Further, that section of the Purchasing Manual expressly incorporates the provisions of section 112.313, F.S., as well as the National Institute of Governmental Purchasing Code of Ethics. These amendments strengthen the controls related to the issues raised by this Finding.*

*The County will continue to review, as needed, its policies and procedures to place controls so as to avoid conflicts of interests.*

**ADMINISTRATIVE MANAGEMENT**

**Finding No. 4:** Listings of disbursements that included the check number, amount, payee, and authorized public purpose of each expenditure were not recorded in the BCC minutes, contrary to law.

**Recommendation:** The BCC should ensure that the check number, amount, payee, and authorized public purpose of each expenditure are recorded in the BCC minutes as required by law.

**COUNTY RESPONSE:**

*Initially, under the Constitution of the State of Florida, the CCC and the BCC are independent constitutional offices. Though the Clerk, under Article V, section 16 of the Florida Constitution is empowered to serve as the “ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds,” the operation of his office is not subject to the direction of the BCC. In those roles, the Clerk is both the keeper of the minutes and responsible for the disbursement of County funds. The Clerk’s constitutional grant of authority vests him with the independent authority within these areas of responsibility. This includes the applicability and compliance with section 136.06, Florida Statutes. Therefore, the County will continue to work with the CCC to assure that the proper recording of expenditures satisfies the requirements of Florida law.*

**Finding No. 5:** The BCC had not adopted policies addressing an acceptable level of unrestricted fund balance in its General Fund or developed a plan to replenish the unrestricted fund balance should it fall below target levels.

**Recommendation:** The BCC should adopt formal policies addressing an acceptable level of unrestricted fund balance in its General Fund and develop a formal plan to replenish the unrestricted fund balance should it fall below target levels.

**COUNTY RESPONSE:**

*The County acknowledges that Government Finance Officers Association (GFOA) recommends that local governments establish a policy on the level of unrestricted fund balance that should be maintained for the General Fund. The County views this recommendation as a best practices tool and not a requirement of law. Additionally, the extent of unrestricted fund balances that may be held during the course of a given year may vary. The County closely monitors these fund balances throughout the course of the year both as to anticipated and potentially unanticipated expenditures. The County will continue to work toward assuring that there are sufficient fund balances available to meet these needs.*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

**RESTRICTED RESOURCES**

**Finding No. 6:** The BCC had not established separate accountability for each type of fuel tax to demonstrate fuel taxes were spent for authorized purposes.

**Recommendation:** The BCC should establish separate accountability for each type of fuel tax to demonstrate fuel taxes were spent for authorized purposes.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendation.*

*While the respective BCC departments exercise prudence in overseeing the appropriateness of expenditures related to the fuel taxes and examples of inappropriate use was not noted in this report, the BCC acknowledges that it should and will take further steps to ensure separation of respective gas tax dollars in order for the County to track expenditures to the respective allowable tax.*

*Additionally, under the Constitution of the State of Florida, the CCC and the BCC are independent constitutional offices. Though the Clerk, under Article V, section 16 of the Florida Constitution is empowered to serve as the "ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds," the operation of his office is not subject to the direction of the BCC. In those roles, the Clerk is the custodian of all County funds and the manner in which those funds are accounted for are solely within his determination. The Clerk's constitutional grant of authority vests him with the independent authority within that area of responsibility. Therefore, the specific issue raised in regards to the functioning of the Clerk's office either has been addressed or will be the subject of future coordination between the respective constitutional bodies.*

**Finding No. 7:** The BCC did not obtain adequate support for certain disbursements from the law enforcement trust fund, or document its decision as to how certain disbursements represented allowable uses of law enforcement trust fund moneys in accordance with the provisions of law.

**Recommendation:** The BCC should continue its efforts to obtain adequate support for all disbursements from the LETF, document its decision as to how the disbursements represent allowable uses of LETF moneys in accordance with the provisions of law, and provide such documentation to the CCC. In addition, the BCC should ensure that organizations receiving LETF moneys provide the CCC with the required accounting of the use of LETF moneys.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendation.*

*As noted in the Finding, in September 2012, the County adopted procedures relating to the application, approval and accounting of the Law Enforcement Trust Fund moneys. The County will continue to review this process and the procedures to make certain that all necessary documentation as to the application, approval and use of these funds are in accordance with these procedures.*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

**PROCUREMENT**

**Finding No. 8:** The BCC did not document that certain professional services could not be competitively procured because the services could only be obtained from one company.

**Recommendation:** The BCC should ensure that professional services are competitively procured or document the reason competitive procurement is not possible in accordance with its policies and procedures.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendations.*

*This Finding is based on a review of two professional service contracts entered into during the period October 2011 through February 2013. As part of the corrective action plan implemented by the County in response to Auditor General Report No. 2013-085, issued January 2013, the County prepared significant revisions to its Purchasing Manual on April 2, 2013. The purpose of these changes was to apply many of the controls that were implemented for the Tourist Development Department to all other departments of the County.*

*In particular, the County amended Section L of the Purchasing Manual relating to request for proposals for professional services and Section G.b.4. relating to sole source items. These amendments strengthen the controls related to the issues raised by this Finding. The County will continue to review and strengthen those policies as circumstances dictate.*

**Finding No. 9:** The BCC needed to strengthen its procedures regarding the procurement of contractual services.

**Recommendation:** The BCC should strengthen its procedures to ensure that all contracts include adequate provisions to effectively protect the interests of the BCC; contract payments are properly supported at the time the payments are approved and paid; required approvals are obtained for all contract payments in accordance with BCC policies and procedures; contract payments are properly monitored and do not exceed maximum amounts stipulated in the contracts; and contract renewals are properly executed in accordance with contract provisions and BCC policies and procedures.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendations.*

*As noted in the Findings, a review of contracts in effect during the period of October 2011 through February 2013 disclosed deficiencies in internal controls over contractual services. As part of the corrective action plan implemented by the County in response to Auditor General Report No. 2013-085, issued January 2013, the County prepared significant revisions to its Purchasing Manual on April 2, 2013. The purpose of these changes was to apply many of the controls that were implemented for the Tourist Development Department to all other departments of the County.*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

*In particular, the County amended Section Q.VII. relating to support, approval and monitoring of contract payments. Further, the County amended Section Q.XVII. relating to contract/lease renewals. These amendments strengthen the controls related to the issues raised by this Finding. The County will continue to review and strengthen its control of contractual services and incorporate necessary protections, support requirements for contractual payments and renewals.*

**Finding No. 10:** BCC records did not adequately document the authorized public purpose served by certain promotional and training-related expenditures. Also, the BCC did not establish written procedures over the use of promotional gift cards.

**Recommendation:** The BCC should strengthen its procedures to ensure that the authorized public purpose of expenditures is adequately documented in BCC records and establish written procedures over the distribution and use of promotional gift cards. The BCC should also document the necessity of providing food and beverages to employees attending training and paying for facility and equipment rentals when its own facilities are available.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendations.*

*The Finding identifies various expenditures and questions the documentation supporting the public purpose for these expenditures. Though the County believes these expenditures do serve a public purpose, the County agrees that it will work toward providing documentation and will continue to do so.*

*As noted in the Findings, a review of expenditures during the period of October 2011 through February 2013 disclosed that BCC records did not adequately document the authorized public purpose served. As part of the corrective action plan implemented by the County in response to Auditor General Report No. 2013-085, issued January 2013, the County prepared significant revisions to its Purchasing Manual on April 2, 2013. The purpose of these changes was to apply many of the controls that were implemented for the Tourist Development Department to all other departments of the County.*

*In particular, the County amended the following sections of the Purchasing Manual relating to the review of whether a particular expenditure serves a public purpose:*

*Section G.2.e. provides:*

*Prior to authorizing any expenditure listed above, the Department Director shall review the purchase and determine that the expenditure serves a public purpose and that the necessary approval and procedures for the expenditure has been complied with.*

*Section G.9.b.(1) provides:*

*The Finance Department shall review the purchase order and determine that the expenditure serves a public purpose, that the necessary approval and procedures for the expenditure have been complied with and certify*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

*that funds are available for the purchase. The funds are encumbered and obligated at this point in the purchasing process. The Finance Department shall forward the certified purchase order to the Purchasing Department.*

*The Finance Department referred to in Section G.9.b.(1) above is under the authority and supervision of the CCC. These amendments strengthen the controls related to the issues raised by this Finding.*

<p><b>Finding No. 11:</b> The BCC needed to enhance its procedures relating to the use of purchasing cards.</p>
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**Recommendation:** The BCC should strengthen its p-card policies and procedures to ensure that an independent review and approval is documented for all purchases; p-card expenditure reports include the required statement that employees and reviewers have certified they reviewed the applicable p-card expenditure report, the report is supported by receipts, all purchases made were for official County business, and the purchases were in accordance with applicable rules and directives; single transaction limits have not been exceeded; prior to payment, employees have acknowledged the receipt of goods and services purchased; BCC records evidence the authorized public purpose served by the expenditures; and p-cards for terminated employees are timely canceled.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendation.*

*As noted in the Findings, a review of P-card expenditures during the period of October 2011 through February 2013 disclosed deficiencies in the controls and monitoring of P-card expenditures. As part of the corrective action plan implemented by the County in response to Auditor General Report No. 2013-085, issued January 2013, the County prepared significant revisions to its Purchasing Manual on April 2, 2013. The purpose of these changes was to apply many of the controls that were implemented for the Tourist Development Department to all other departments of the County.*

*In particular, the County amended Section N of the Purchasing Policy relating to Purchasing Card Policy and Procedures. These amendments strengthen the controls related to the issues raised by this Finding. The following is a list of revisions made to the Purchasing Manual:*

- *Section N.C.10.(c) requires P-card expenditure reports of Department Directors to be reviewed by the County Administrator. Reports of the County Administrator are reviewed by the Chairman of the BCC. Reports of the BCC members are reviewed by the Clerk's Finance Department.*
- *Section N.A.3. relating to the cancellation of P-cards for cardholders that are no longer employed by the County.*
- *Section N.C.2 and 3 requiring that goods or services are received prior to payment.*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

- *The revised P-card Expenditure Report (page 63 of Purchasing Manual) requires employees and reviewers to certify they reviewed the report, the report is supported by receipts, all purchases were made for official County business, the purchases were in accordance with applicable rules and directives, documents the public purpose of the purchases, and the date on which the goods/services were received.*

*The County recognizes the importance of P-cards in the elimination of petty cash for small purchases as well as the intangible benefit of rebates from the issuer. In that regard, the County will also review and consider the amendment of the policies and procedures to address controls related to the use of P-cards, as determined to be needed by the County.*

**Finding No. 12:** The BCC did not document the necessity of paying for certain goods and services in advance of their receipt, contrary to law.

**Recommendation:** The BCC should strengthen policies and procedures to ensure that advance payments are approved and paid only if the payments result in a savings that is equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments are essential to the BCC's operations and the goods or services being paid for are available only if advance payment is made.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendations.*

*As noted, the County has adopted amendments to its Purchasing Manual on April 2, 2013 which significantly strengthened the review and documentation required for expenditures. The County will continue to review and strengthen these controls, as necessary, including limitations on the advancement of payments.*

**TRAVEL**

**Finding No. 13:** Several County Commissioners received monthly travel allowances based on typical months' travel statements that were outdated, included unallowed mileage, or did not include adequate descriptions of the travel claimed.

**Recommendation:** The BCC should strengthen its procedures to ensure that travel allowances are paid based on typical month's travel statements that are updated annually, include sufficiently detailed information, and are correctly calculated in accordance with the provisions of law and guidance provided in applicable Attorney General opinions.

**COUNTY RESPONSE:**

*Though the County does not necessarily agree that all of the examples cited in the Finding were contrary to the requirements of law, the County will review and revise where necessary, its procedures to ensure that travel allowances are paid based upon the requirements of Florida law.*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

**CONTRIBUTIONS**

**Finding No. 14:** The BCC had not adopted policies and procedures for making contributions to private nonprofit corporations. Also, the BCC did not consistently document how contributions to the corporations served an authorized public purpose, require the corporations to enter into a written agreement stating the purpose for which the contributions should be used, or obtain a subsequent accounting from the corporations as to how the contributions were ultimately used.

**Recommendation:** The BCC should adopt written policies and procedures addressing criteria to be used to make contributions to private nonprofit corporations, the methodology for calculating the amount of the contributions, and the responsibilities of the corporations receiving the contributions to provide an accounting as to how the contributions were ultimately used. In addition, the BCC should document how each contribution serves an authorized public purpose and obtain a subsequent accounting from each corporation to document that the authorized public purpose was accomplished.

**COUNTY RESPONSE:**

*The County agrees with the findings and recommendations.*

*The County will adopt written policies and procedures addressing criteria to be used to make contributions to private nonprofit corporations; as well as consider the methodology for calculating the amount of the contributions, and the responsibilities of the corporations receiving the contributions to provide an accounting as to how the contributions were ultimately used. In addition, the County will strengthen its procedures to establish how contributions serve a public purpose.*

**MOTOR VEHICLES**

**Finding No. 15:** The BCC had not established adequate controls over the use of fuel cards.

**Recommendation:** The BCC should continue its efforts to strengthen controls over the use of fuel cards by requiring BCC departments to retain all receipts from retail locations and perform reconciliations of fuel charges to those receipts.

**COUNTY RESPONSE:**

*The County agrees with the audit finding and recommendation.*

*The County currently monitors fuel sales through a variety of documentation. The primary source of review is the electronic transaction data which establishes the purchaser, the fuel card number, the vehicle that was fueled, the fueling location, the amount purchased and the price. The County has already reviewed the parameters for all fuel cards and adjusted the parameters where appropriate.*

*The County will continue to review its procedures and controls to provide assurance that adequate documentation is available. The County will also strengthen its vehicle usage procedures to include fuel consumption parameters and more effective use of its fuel card exception reports. Further,*

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE - BOARD OF COUNTY COMMISSIONERS**

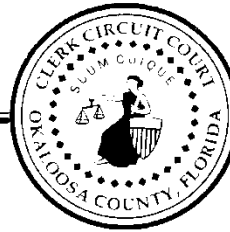
*the County will review the viability of requiring user department reconciliation of fuel charges to gas receipts and the retention of all gas receipts by user departments.*

Findings 16 through 21 are directed to the Clerk of the Circuit Court and as such, no response is required by the County.

EXHIBIT C  
MANAGEMENT'S RESPONSE - CLERK OF THE CIRCUIT COURT

**DON W. HOWARD**

CLERK OF THE CIRCUIT COURT, OKALOOSA COUNTY, FLORIDA



November 11, 2013

David W. Martin  
Auditor General –State of Florida  
Local Government Audits/Section 341  
111 West Madison Street  
Tallahassee, FL 32399-1450

Re: Okaloosa County Board of County Commissioners and  
Clerk of Circuit Court Operational Audit  
Preliminary and Tentative Findings and Recommendations  
Dated: October 17, 2013

Dear Mr. Martin:

In response to the preliminary and tentative audit findings and recommendations of the above referenced audit provided by your office on October 17, 2013, enclosed is the response of the Clerk of Circuit Court.

Since this was a joint audit and findings 1-15 were specifically directed to the Board of County Commissioners and findings 16–21 were directed to the Clerk of Circuit Court, my responses will be specific to findings directed to the duties and responsibilities of the Clerk.

If you require any additional information, I can be reached at 850-689-5000 ext. 4301.

Sincerely,

Don W. Howard  
Clerk of Circuit Court and Comptroller

- REPLY TO:
- 101 E. JAMES LEE BLVD. • CRESTVIEW, FLORIDA 32536 • (850) 689-5000
  - SHALIMAR ANNEX • 1250 N. EGLIN PKWY • SHALIMAR, FLORIDA 32579 • (850) 651-7200
  - ANNEX EXTENSION • 1940 LEWIS TURNER BLVD., SUITE 1-300 • FT WALTON BEACH, FLORIDA 32547 • (850) 651-7200
  - BRACKIN BUILDING • 302 NORTH WILSON ST., SUITE 203 • CRESTVIEW, FLORIDA 32536 • (850) 689-5000

**EXHIBIT C (CONTINUED)**  
**MANAGEMENT'S RESPONSE - CLERK OF THE CIRCUIT COURT**

**CLERK OF CIRCUIT COURT**

**RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS (No. 16-21) OF**

**OKALOOSA COUNTY CLERK OF CIRCUIT COURT**

**Received October 17, 2013**

**Organizational Oversight**

**Finding No. 16 (CCC Duties and Responsibilities):** The CCC did not ensure that adequate documentation accompanied certain BCC payment vouchers or deny payment of BCC payment vouchers that were inadequately supported.

**Recommendation:** The CCC should ensure that adequate documentation accompanies each BCC payment voucher to document the validity, legality and authorized public purpose of the expenditures, or deny payment of the expenditures until such documentation is provided.

**CLERK RESPONSE:** The Clerk of Circuit Court agrees with this recommendation.

The Clerk of Circuit Court, subsequent to the release of Audit 2013-85, has required adequate documentation for each and every BCC payment voucher as recommended by this finding.

This audit finding discusses four recommendations made to the Board of County Commissioners. Several of these recommend that the Board improve their internal controls, including requiring adequate supporting documentation for expenditures. The BCC has worked diligently to make improvements to its controls over expenditures.

In conjunction with the BCC improvements, the Clerk of Circuit Court has made substantial improvements to its review of expenditures. This office began making improvements in May, 2012. It has continued to make improvements since that date. For example, in September 2012, the Clerk of Circuit Court started verifying that all BCC departmental responsibilities required by the BCC Purchasing Policy have been complied with and began documenting any corrective action needed. Another example is, in October 2012, the Clerk of Circuit Court started drilling down on contractor invoices submitted for payment by also examining any underlying subcontractor invoices.

**Finding No. 17 (Internal Auditing):** The CCC had not adopted policies and procedures governing the operations of the Internal Audit Department, nor did the Internal Audit Department prepare periodic work plans that detailed planned audits and work activities.

**EXHIBIT C (CONTINUED)**  
**MANAGEMENT'S RESPONSE - CLERK OF THE CIRCUIT COURT**

**Recommendation:** The CCC should adopt policies and procedures governing the operations of the Internal Audit Department and approve periodic work plans that detail the Department's planned audits and work activities.

**CLERK RESPONSE:** The Clerk of Circuit Court agrees with this recommendation.

The Clerk of Circuit Court will develop policies and procedures in accordance with auditing standards and will develop an annual audit plan using a risk based tool to establish audit priorities as it relates to the various departments under the jurisdiction of the Clerk.

As of this date, the Clerk has recommended to an Internal Audit Workgroup, appointed by the Chairman of the BCC, to proceed with an internal audit structure that would be under the direction of the Clerk, which is consistent with our constitutional structure. Under this recommendation, the internal audit function would operate in a collaborative manner with the BCC to establish an Audit Committee and, based on risk analysis, establish annual Audit Plans. This recommendation has not been brought back before the BCC as of this date but is expected soon. Depending on what action the BCC may take in regard to this recommendation greatly affects what structure I will need to fulfill my internal audit responsibilities.

In any event, the recommendations of this finding, as it relates to the Office of the Clerk of Circuit Court will be implemented.

### **Fraud and Ethics Controls/Risk Assessments**

**Finding No. 18 (Fraud Controls and Risk Assessments):** The CCC had not performed periodic fraud and risk assessments of the operations of CCC departments.

**Recommendation:** The CCC should ensure that periodic fraud and control risk assessments are performed and documented for all CCC departments. The CCC should also consider the risk assessments obtained by the BCC.

**CLERK RESPONSE:** The Clerk of Circuit Court agrees with this recommendation.

As noted by the Auditor General, the Clerk of the Circuit Court Internal Audit Director has been tasked with the responsibility to establish policies and procedures related to risk assessments. Once these policies and procedures have been completed, approved and adopted; all Clerk of the Circuit Court departments will begin undergoing periodic risk assessments. The initial draft is expected by January 2014.

**Finding No. 19 (Conflicts of Interest):** CCC policies and procedures were not adequate to identify and prevent potential conflicts of interest.

**Recommendation:** The CCC should establish policies and procedures designed to identify and prevent potential conflicts of interest.

**CLERK RESPONSE:** The Clerk of the Circuit Court agrees with this recommendation.

**EXHIBIT C (CONTINUED)**  
**MANAGEMENT'S RESPONSE - CLERK OF THE CIRCUIT COURT**

As noted by the Auditor General, the Clerk of the Circuit Court has policies and procedures that generally prohibit conflicts of interest and provide for disciplinary action if those policies are violated.

The Clerk of the Circuit Court will begin requiring Finance and Procurement employees to annually sign a Conflict of Interest Statement and to disclose any possible conflicts of interest in this statement. The implementation date of this policy is targeted for January 2014.

Additionally, the Clerk of the Circuit Court will evaluate the current policies and procedures for cost beneficial enhancements which would further strengthen conflict of interest controls.

### **Electronic Commerce**

**Finding No. 20 (E-Payables and Electronic Funds Transfers):** The CCC had not adopted written policies and procedures, or established effective controls, over transactions involving electronic commerce.

**Recommendation:** The CCC should adopt written policies and procedures addressing, and establish adequate controls over, electronic commerce transactions to ensure adequate integrity, security, confidentiality and auditability of such transactions.

**CLERK RESPONSE:** The Clerk of the Circuit Court agrees with this recommendation.

The Clerk of the Circuit Court is actively working on making improvements to its electronic payment process. For example, we are implementing a documented dual control for wire transfers, which will require one employee to initiate the transaction and another employee to approve it. Once improvements are finalized with the financial institution, all policies and procedures will be updated to reflect this enhancement.

### **Information Technology**

**Finding No. 21 (Access Controls):** The CCC had not established adequate controls over employee access privileges to data and information technology resources.

**Recommendation:** The CCC should strengthen access control procedures to ensure that access privileges are only assigned to employees who require such access as part of their assigned job responsibilities. If incompatible access privileges must be granted to employees due to software limitations, the CCC should document and retain evidence that compensating controls, such as reviewing transaction edit reports for propriety, have been performed.

**CLERK RESPONSE:** The Clerk of Circuit Court agrees with this recommendation.

The Clerk of the Circuit Court Finance Division and the BCC Finance Division have always maintained compensating controls and the proper separation of duties in regards to the payroll functions. There are

**EXHIBIT C (CONTINUED)**  
**MANAGEMENT'S RESPONSE - CLERK OF THE CIRCUIT COURT**

multiple people involved in the process at the department, finance and administrative level. While I do not disagree with strengthening access control procedures, as recommended, I would like to clarify and state that we did in fact implement additional compensating controls in March and April 2013 that were a direct result of the recommendations in the Auditor General's Report 2013-0085.

Additional compensating controls are provided by:

1. The Clerk Finance Director processing the payroll
2. The Clerk personally reviewing and approving payroll, including reviewing payroll changes, new employees and time sheets.

In regard to journal entries, in a proactive response to the Auditor General's Report 2013-0085, Finance Policies were amended in March 2013. The policies now include a documented review and approval by the Finance Director, in their absence, an employee other than the one who made the journal entry. Additionally, the Finance Director also performs a documented review of a weekly journal entry report.

In regard to vendors and changes to the vendor master file, a new procedure was developed in April 2013. It requires a monthly documented review of a detailed report on the vendor list. This provides an additional compensating control over all additions, deletions and changes to the vendor file.

Relative to IT controls, on November 5, 2013, Policy No. 6.1.05.006 was adopted that requires documented supervisor approval to the IT Department prior to any change, addition or deletion to any employee's level of assigned system authority. Additionally, periodic review of each department's user security will be performed by IT and properly documented.

END OF CLERK OF CIRCUIT COURT RESPONSE