

Report No. 2020-057
November 2019

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

TRIUMPH GULF COAST, INC.



Sherrill F. Norman, CPA
Auditor General

Board of Directors and Executive Director of Triumph Gulf Coast, Inc.

Section 288.8013, Florida Statutes, establishes Triumph Gulf Coast, Inc. (Triumph) as a nonprofit corporation that is not a unit or entity of State Government. Section 288.8014, Florida Statutes, provides for Triumph to be governed by a seven-member Board of Directors (Board). The Board is to include three private sector members appointed by the Governor, the Attorney General, and the Chief Financial Officer, respectively, two private sector members appointed by the President of the Senate, and two private sector members appointed by the Speaker of the House of Representatives. One of the two Board members appointed by the President of the Senate and the Speaker of the House of Representatives must represent one of the four least populous disproportionately affected counties.

During the period July 2018 through June 2019, Susan Skelton served as Executive Director of Triumph and the following individuals served as Board members:

Governor Appointee:	Lewis Bear, Jr. from 3-26-2019 ^a Stan Connally, Jr. through 9-1-2018
Attorney General Appointee:	Pam Dana
Chief Financial Officer Appointee:	Stephen Riggs, IV, Treasurer
President of the Senate Appointees:	Allan Bense, Vice Chair from 12-7-2018 Jason Shoaf through 6-20-2019 ^b
Speaker of the House of Representatives Appointees:	Don Gaetz, Chair Benjamin Lee

^a The Board member position appointed by the Governor was vacant 9-2-2018, through 3-25-2019.

^b One Board member position appointed by the President of the Senate was vacant from 6-21-2019, through the end of the audit period.

The team leader was William Karalius, CPA, and the audit was supervised by Joshua T. Barrett, CPA.

Please address inquiries regarding this report to Christi Alexander, CPA, Audit Manager, by e-mail at christialexander@aud.state.fl.us or by telephone at (850) 412-2786.

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TRIUMPH GULF COAST, INC.

SUMMARY

This operational audit of Triumph Gulf Coast, Inc. (Triumph) focused on the administration of Triumph project and program awards and selected administrative activities. The audit also included a follow-up on Finding 3 noted in our report No. 2019-215. Our audit disclosed the following:

Finding 1: Security controls over mobile device utilization need improvement to ensure the confidentiality, integrity, and availability of Triumph data and information technology resources.

BACKGROUND

The Gulf Coast Economic Corridor Act¹ (Act) established Triumph Gulf Coast, Inc. (Triumph) effective May 17, 2013, as a nonprofit corporation that is not a unit or entity of State Government to administer the funds to be used for the economic recovery, diversification, and enhancement of the areas impacted by the 2010 Deepwater Horizon oil spill.²

State law³ specifies that 75 percent of the funds received by the State pursuant to the settlement agreement⁴ with the BP entities must be deposited into a trust account established by Triumph and that at least 40 percent of the funds received by the State before July 1, 2017, are to be allocated equally among the eight disproportionately affected counties (Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Wakulla, and Walton).⁵ State law⁶ further provides that Triumph administrative costs may not exceed 0.75 percent of the funds released to Triumph and that the annual salaries of employees and contracted staff may not exceed \$130,000 and associated benefits may not exceed 35 percent of salary.

Triumph is authorized⁷ to hire or contract for all staff necessary to properly execute its powers and duties to implement the requirements of the Act. According to Triumph records, as of June 2019, Triumph employed an Executive Director and utilized three independent contractors to carry out Triumph's responsibilities. During the period July 2018 through June 2019, Triumph paid salary and benefit expenses totaling \$339,593.

Pursuant to State law,⁸ Triumph is responsible for: responsibly and prudently managing all funds received; ensuring funds are used in accordance with all applicable laws, bylaws, or contractual requirements; administering the awards program created by the Act; and operating in a transparent

¹ Chapter 2013-39, Laws of Florida. Codified in Sections 288.80 and 288.8011 through 288.8018, Florida Statutes.

² On April 20, 2010, the oil rig Deepwater Horizon exploded in the Gulf of Mexico, resulting in an 87-day oil spill that impacted the coasts of Alabama, Florida, Louisiana, Mississippi, and Texas.

³ Section 288.8013(2), Florida Statutes.

⁴ Section 288.8012(4), Florida Statutes, specifies that the settlement agreement is the agreement entitled, "Settlement Agreement Between the Gulf States and the BP Entities with Respect to Economic and Other Claims Arising from the *Deepwater Horizon* Incident," entered into on October 5, 2015.

⁵ Section 288.8013(2)(b)2., Florida Statutes, specifies that at least 32 percent of settlement agreement funds received after July 1, 2017, are to be allocated equally among the eight disproportionately affected counties.

⁶ Section 288.8013(2)(d) and (3), Florida Statutes.

⁷ Section 288.8014(9), Florida Statutes.

⁸ Section 288.8016, Florida Statutes.

manner, including providing public access to information, notice of meetings, awards, and the status of projects and programs. State law⁹ requires Triumph to make awards from available funds to projects or programs that meet the priorities for economic recovery, diversification, and enhancement of the disproportionately affected counties, including projects or programs that:

- Provide ad valorem tax rate reductions.
- Meet local match requirements for rural infrastructure projects.¹⁰
- Construct, expand, or maintain public infrastructure.
- Establish and maintain equipment and trained personnel for local action plans to respond to disasters.
- Prepare students for future occupations and careers at K-20 institutions.
- Provide participants with transferable, sustainable workforce skills that are not confined to a single employer.
- Promote and advertise tourism and Fresh From Florida and promote workforce and infrastructure.

Triumph awards may not finance 100 percent of any project or program and contracts executed with an awardee must include provisions for a performance report on contracted activities, account for the proper use of awarded funds, and permit the recovery of awards in the event the award was based on fraudulent information or the awardee is not meeting performance requirements.¹¹ State law¹² specifies that Triumph is to monitor, review, and annually evaluate awardees' projects and programs to determine whether an award should be continued, terminated, reduced, or increased.

State law¹³ requires Triumph to establish an application procedure for awards and a scoring process to select projects and programs that have the potential to generate increased economic activity in the disproportionately affected counties. Accordingly, Triumph created the *Application for Funds Form* for applicants to include a detailed description of the proposed project or program, including the requested funding. According to Triumph records, during the period July 2018 through June 2019, Triumph received 25 *Application for Funds Forms* and approved 9 awards totaling \$94,608,487.

On February 8, 2019, Triumph established the Hurricane Michael Major Disaster Relief Program to make \$15 million of Triumph funds available for the recovery and diversification of the economy of the counties affected by Hurricane Michael.¹⁴ On April 29, 2019, Triumph executed a \$10.7 million grant award agreement with Bay County and a \$4.3 million grant award agreement with Gulf County.

⁹ Section 288.8017(1), Florida Statutes.

¹⁰ Section 288.0655(2)(e), Florida Statutes.

¹¹ Section 288.8017(3) and (4), Florida Statutes.

¹² Section 288.8016(3), Florida Statutes.

¹³ Section 288.8017(2), Florida Statutes.

¹⁴ Hurricane Michael made landfall as a Category 5 hurricane in the Florida Panhandle on October 10, 2018, causing catastrophic damage from wind and storm surge, particularly in the Panama City Beach to Mexico Beach to Cape San Blas areas.

FINDING AND RECOMMENDATION

Finding 1: Mobile Device Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit procedures disclosed that certain security controls related to mobile device¹⁵ utilization need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising Triumph data and IT resources. However, we have notified appropriate Triumph management of the specific issues.

Without appropriate security controls related to the use of mobile devices by Triumph management, Board members, and contracted employees, the risk is increased that the confidentiality, integrity, and availability of Triumph data and IT resources may be compromised.

Recommendation: We recommend that Triumph enhance certain security controls related to Triumph management, Board member, and contracted employee use of mobile devices to ensure the confidentiality, integrity, and availability of Triumph data and IT resources.

PRIOR AUDIT FOLLOW-UP

Triumph had taken corrective actions for the applicable finding included in our report No. 2019-215 (Finding 3).

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from June 2019 through September 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of Triumph Gulf Coast, Inc. (Triumph) focused on the administration of Triumph project and program awards and selected administrative activities. The overall objectives of the 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, administrative rules, contracts, grant agreements, and other guidelines.

¹⁵ Mobile devices are portable devices, such as laptop computers, smartphones, and tablets, that allow storage and transmittal of entity data.

- To 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, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To determine whether management had corrected, or was in the process of correcting, the deficiency noted in our report No. 2019-215 as Finding 3.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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 governing laws, rules, or contracts, 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.

As described in more detail below, 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's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically 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, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws to obtain an understanding of the legal framework governing Triumph operations.
- Reviewed applicable laws, Triumph policies and procedures, and other guidelines, and interviewed Triumph's Executive Director, independent contractors, Board members, independent certified public accounting firm, and legal advisor to gain an understanding of Triumph controls for administering awards and managing financial and other administrative activities.
- From the population of 50 pre-applications for awards submitted to Triumph during the period July 2018 through June 2019, examined Triumph records for 11 selected pre-applications to determine whether pre-applications were evaluated based on the criteria established in

Section 288.8017, Florida Statutes, and eligibility decisions were sufficiently documented and communicated to applicants.

- Interviewed Triumph management and reviewed Triumph policies and procedures to determine whether Triumph required management and independent contractors to attest, in writing, that they would comply with established Triumph conflict of interest policies and were independent of, and had no conflicts of interest related to, the applicants they were responsible for evaluating.
- From the population of 25 applications for awards received by Triumph staff during the period July 2018 through June 2019, examined Triumph records for 5 selected applications to determine whether applications were appropriately evaluated based on the criteria established in Section 288.8017, Florida Statutes, and approval or denial decisions were sufficiently documented and communicated to applicants.
- From the population of 13 applications for awards, totaling \$204,404,637, approved by the Board to enter into term sheet negotiations during the period July 2018 through June 2019, examined Triumph records for 6 selected applications for awards, totaling \$35,905,959, to determine whether Triumph staff obtained Board approval prior to negotiating terms with the applicants and whether Triumph posted its intent to award on Triumph's Web site in accordance with Section 288.8016(4), Florida Statutes.
- From the population of 9 award agreements, totaling \$94,608,487, executed by Triumph during the period July 2018 through June 2019, examined Triumph records for 3 selected award agreements, totaling \$76,850,977, to determine whether Triumph included in the award agreements the provisions specified in Section 288.8017, Florida Statutes.
- Examined Triumph records for the award agreement subject to Triumph monitoring during the period July 2018 through June 2019 to determine whether Triumph reviewed and monitored awardee compliance with award agreement terms and conditions.
- Examined Triumph records for both semi-annual reports due to the Governor, the President of the Senate, and the Speaker of the House of Representatives during the period July 2018 through June 2019 to determine whether Triumph submitted the reports in accordance with Section 288.8013(4), Florida Statutes.
- Examined Triumph records for the Hurricane Michael Disaster Recovery Fund grant agreements executed with Bay and Gulf counties during the period July 2018 through June 2019 to determine whether Triumph appropriately awarded and disbursed hurricane relief funds in accordance with State law and contract terms and conditions.
- Examined Triumph policies and procedures and Board meeting agendas and minutes for the period July 2018 through June 2019 to determine whether Triumph ensured that Board meetings were held in accordance with Section 288.8011, Florida Statutes, and whether Board members timely and properly disclosed possible direct and indirect conflicts of interest.
- Examined Triumph policies and procedures, performed inquiries of Triumph management related to the Triumph organizational structure, and reviewed disclosures of financial interest filed with the Commission on Ethics for Triumph's Executive Director, three independent contractors, and eight Board members to determine whether Triumph had established adequate processes to ensure that all required parties filed disclosures of financial interests by July 1, 2018, in accordance with Section 112.3145, Florida Statutes.
- From the population of 25 general expenses, totaling \$31,303, incurred during the period July 2018 through June 2019, examined Triumph records for 5 selected general expenses, totaling \$27,298, to determine whether general expenses were appropriately supported, approved, and timely and accurately recorded to Triumph financial records.
- From the population of 40 travel expenses, totaling \$5,518, incurred during the period July 2018 through June 2019, examined Triumph records for 18 selected travel expenses, totaling \$3,227,

to determine whether travel expenses complied with applicable provisions of State law and whether expenses were timely and accurately recorded to Triumph financial records.

- From the population of 21 nonapplicant contracts, totaling \$610,685, active at some point during the period July 2018 through June 2019, examined Triumph records for 8 nonapplicant contracts, totaling \$479,954, to determine whether nonapplicant contracts were properly managed and payments were timely approved by the Board and appropriately recorded to Triumph financial records.
- Interviewed Triumph management, examined Triumph records, and evaluated Triumph processes to determine whether Triumph took steps to reasonably ensure that service organization controls relevant to the services performed on behalf of Triumph were suitably designed and operating effectively during the period July 2018 through June 2019.
- Evaluated Triumph actions to correct Finding 3 noted in our report No. 2019-215. Specifically, we evaluated Triumph policies and procedures and examined selected records to determine whether Triumph had established adequate controls over the authorization and processing of electronic funds transfers.
- Observed, documented, and evaluated the effectiveness of selected Triumph processes and procedures for:
 - Cash and revenue management and budgetary activities.
 - The administration of tangible personal property in accordance with Triumph policies and procedures. As of June 2019, Triumph was responsible for tangible personal property with related acquisition costs totaling \$4,298.
 - The administration of purchasing cards in accordance with Triumph policies and procedures. As of June 30, 2019, Triumph had one active purchasing card.
 - The assignment and use of mobile devices with related costs totaling \$900 during the period July 2018 through June 2019.
 - The acquisition and management of real property leases in accordance with Triumph policies and procedures. As of June 30, 2019, the Department was responsible for one real property lease.
 - The administration of hurricane-related contracting and purchasing activities.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the finding and recommendation that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 288.8013(5), Florida Statutes, requires that the Auditor General conduct an operational audit of Triumph Gulf Coast, Inc. annually. 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Scott A. Remington
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November 18, 2019

Via Email To: flaudgen audrpt sga@aud.state.fl.us

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Auditor General, State of Florida
Claude Denson Pepper Bldg, Suite G74
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Tallahassee, FL 32399-1450

RE: Triumph Gulf Coast, Inc. Response to 2019 Audit Findings

Dear Ms. Norman:

This letter follows receipt of your preliminary and tentative audit findings and recommendation dated October 22, 2019 and supplemental confidential recommendations. Please accept this correspondence as Triumph Gulf Coast, Inc.'s ("Triumph") written statement of explanation concerning the finding and recommendations highlighted in your preliminary and tentative findings.

Triumph acknowledges the concerns raised regarding security controls. Triumph is in the process of enhancing its security controls by implementing actions to ensure the confidentiality, integrity, and availability of Triumph data and IT resources.

Thank you for your cooperation and assistance with this matter. We appreciate the time, attention, and thought that went into the Auditor General's report & recommendations and look forward to working with your office in the future.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Scott A. Remington', with a large, sweeping flourish extending to the right.

Scott A. Remington
General Counsel, Triumph Gulf Coast, Inc.

cc: Don Gaetz, Chair
Susan Skelton

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