

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

Follow-Up on Report No. 2014-068



Sherrill F. Norman, CPA
Auditor General

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 August 2014 through January 2015 are listed below:

<u>Board of County Commissioners</u>	<u>District No.</u>
Wayne Harris	1
Dave Parisot to 11-17-2014	2
Carolyn Ketchel from 11-18-2014	2
Nathan Boyles, Vice Chair to 12-31-2014, Chair from 1-1-2015	3
Don Amunds to 11-17-2014	4
Trey Godwin from 11-18-2014	4
Kelly Windes, Chair to 12-31-2014, Vice Chair from 1-1-2015	5
<u>Clerk of the Circuit Court</u>	
Don W. Howard to 10-30-2014	
J. D. Peacock from 10-31-2014	

The team leader was Joseph D. Dykes, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

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

Follow-Up on Report No. 2014-068

SUMMARY

This report provides the results of our audit to determine the extent to which the Okaloosa County Board of County Commissioners (BCC) and Okaloosa County Clerk of the Circuit Court (CCC) had taken, or were in the process of taking, corrective actions to address the findings included in our report No. 2014-068. Our follow-up procedures to determine the BCC's and CCC's progress in addressing the 21 findings and recommendations contained in our report No. 2014-068 disclosed that, as of the completion of our follow-up procedures in June 2015, the BCC's and CCC's actions corrected 13 findings (i.e., Nos. 1, 2, 3, 4, 8, 10, 11, 12, 13, 17, 19, 20, and 21), partially corrected 5 findings (i.e., Nos. 7, 9, 14, 16, and 18), and did not correct 2 findings (i.e., Nos. 6 and 15). The BCC took no corrective action regarding Finding 5.

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 State law.¹ The BCC is composed of five County Commissioners, and each County Commissioner is elected to a 4-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 protect the health, safety, and welfare of the citizens.

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.

As directed by the Legislative Auditing Committee, we conducted an operational audit of the BCC and CCC for the period October 2011 through February 2013, and selected actions taken subsequent thereto,

¹ Chapter 125, Florida Statutes.

and issued our report No. 2014-068 in December 2013. In accordance with State law,² we performed follow-up procedures, as deemed necessary, to determine the BCC's and CCC's progress in addressing the findings and recommendations contained within that report.

FINDINGS AND RECOMMENDATIONS ***OKALOOSA COUNTY BOARD OF COUNTY COMMISSIONERS***

FRAUD AND ETHICS CONTROLS/RISK ASSESSMENTS

Finding 1: Fraud Controls and Risk Assessments

Previously Reported

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. In April 2013, the BCC contracted with a certified public accounting (CPA) firm to perform an overall fraud and control risk assessment, and the CPA firm released its report in August 2013.

We recommended that the BCC continue 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, we recommended that the BCC enhance its anti-fraud program policies and procedures to include a written fraud response plan.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. The BCC implemented the recommendations included in the August 2013 CPA firm's fraud and control risk assessment report and adopted a written fraud response plan.

Finding 2: Statements of Financial Interests

Previously Reported

Two BCC local officers did not file the statutorily required statement of financial interests with the Okaloosa County Supervisor of Elections.

We recommended that the BCC ensure the names and positions of applicable local officers, as defined in State law,³ are communicated to the Florida Commission on Ethics (Commission) to assist the Commission in identifying and notifying all persons required to file a statement of financial interests.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. The BCC established procedures to annually communicate the names and positions of applicable local officers to the Commission. In February 2014, BCC personnel

² Section 11.45(2)(j), Florida Statutes.

³ Section 112.3145(1), Florida Statutes.

communicated this information to the Commission for 31 local officers. We selected the records of 23 local officers for testing and determined that each had filed a statement of financial interests for the 2013 calendar year.

Finding 3: Conflicts of Interest

Previously Reported

BCC policies and procedures were not adequate to identify and prevent potential conflicts of interest.

We recommended that the BCC enhance 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.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. In September 2014, the BCC approved a policy requiring BCC employees to disclose, at least annually, potential conflicts of interest. The policy requires that any potential conflicts of interest be provided to purchasing department personnel for their consideration when making purchasing decisions. In February 2015, one commissioner identified a potential conflict of interest to the BCC, which was provided to the purchasing department for consideration when making future purchasing decisions.

ADMINISTRATIVE MANAGEMENT

Finding 4: BCC Duties and Responsibilities

Previously Reported

Listings of disbursements that included the check number, amount, payee, and purpose of each expenditure were not recorded in the BCC minutes, contrary to State law.⁴

We recommended that the BCC ensure that the check number, amount, payee, and purpose of each expenditure are recorded in the BCC minutes as required by State law.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. Minutes for 10 BCC meetings held during the period August 2014 through January 2015 contained a link to the CCC's Web site that provided a disbursement listing, including the check number, amount, payee, and purpose of each expenditure.

Finding 5: Fund Balance – General Fund

Previously Reported

The BCC had not adopted policies addressing an acceptable level of unrestricted fund balance in the General Fund or developed a plan to replenish the unrestricted fund balance should it fall below target levels.

⁴ Section 136.06(1), Florida Statutes.

We recommended that the BCC adopt formal policies addressing an acceptable level of unrestricted fund balance in the General Fund and develop a formal plan to replenish the unrestricted fund balance should it fall below target levels.

Results of Follow-Up Procedures

The BCC took no corrective action regarding this finding. The Government Finance Officers Association (GFOA) recommends that local governments establish a formal policy that provides for maintaining, at a minimum, an unrestricted fund balance in the General Fund that is no less than 2 months (17 percent) of the General Fund's operating revenues or operating expenditures. The policy should also provide for replenishing unrestricted fund balance when the balance falls below the target level. However, the BCC did not adopt a formal policy addressing an acceptable level of unrestricted fund balance in the General Fund. BCC personnel indicated that flexibility is necessary for establishing appropriate reserves and that they monitor unrestricted fund balances to ensure amounts are maintained for anticipated and unanticipated expenditures. At September 30, 2014, the County reported a General Fund unrestricted fund balance of \$7,728,773, which is 10 and 9 percent of 2013-14 fiscal year operating revenues and expenditures, respectively, and less than the 17 percent level recommended by the GFOA. Policies that establish acceptable levels of General Fund unrestricted fund balance would set forth management's intent for such levels, provide public awareness of the levels, and guide BCC personnel to ensure adequate resources are available for emergencies or unforeseen circumstances.

Recommendation: The BCC should adopt a formal policy addressing an acceptable level of unrestricted fund balance in the General Fund. Such policy should include a formal plan to replenish the unrestricted fund balance should it fall below the target level.

RESTRICTED RESOURCES

Finding 6: Accounting for Fuel Taxes

Previously Reported

The BCC had not established separate accountability for each type of fuel tax to demonstrate fuel taxes were spent for authorized purposes.

We recommended that the BCC establish separate accountability for each type of fuel tax to demonstrate fuel taxes were spent for authorized purposes.

Results of Follow-Up Procedures

The BCC's actions did not correct this finding. Although BCC and CCC personnel discussed this issue and were working on a solution, separate accountability for each type of fuel tax had not been established as of June 2015. 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.

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

Finding 7: Use of Law Enforcement Trust Fund Moneys

Previously Reported

The BCC did not obtain adequate support for certain disbursements from the law enforcement trust fund (LETF) or document its decision as to how certain disbursements represented allowable uses of LETF moneys in accordance with the provisions of State law.⁵

We recommended that the BCC continue 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 State law, and provide such documentation to the CCC. We also recommended that the BCC ensure that organizations receiving LETF moneys provide the CCC with the required accounting of the use of LETF moneys.

Results of Follow-Up Procedures

The BCC's actions partially corrected this finding. In January 2014, the Okaloosa County Sheriff's Office (OCSO) and BCC's Joint Operating Procedures (Procedures) for the LETF were revised to describe the requirements for initiating a request for expenditure from the LETF, authorized uses of LETF moneys, BCC review and approval process, and process for disbursing funds and submitting receipts. Section 5 of the Procedures requires the OCSO and any entity or organization receiving LETF moneys to provide supporting documentation, such as a summary of the costs and related receipts, for expenditures of those moneys within 90 days of disbursement by the BCC. Organizations other than the OCSO must provide the documentation for expenditures to the OCSO with a copy to the CCC.

During the period August 1, 2014, through January 8, 2015, the BCC disbursed \$15,000 in LETF moneys to the OCSO for subsequent disbursement to six different organizations. In approving the disbursements of LETF moneys, the BCC ensured that the intended use of the disbursements represented allowable uses of LETF moneys. However, the BCC did not ensure that the documentation for LETF expenditures was provided to the CCC within 90 days of disbursement by the BCC nor, in the absence of the required documentation, did the BCC seek reimbursement of the LETF moneys from the organizations. As of April 15, 2015, the required documentation had been provided to the CCC by only one of the six organizations. The risk that LETF moneys will be used for unallowable purposes increases when adequate support is not obtained for disbursement requests.

Recommendation: The BCC should ensure that organizations receiving LETF moneys timely provide the CCC with the required documentation of the use of LETF moneys or seek reimbursement from the organizations.

⁵ Section 932.7055, Florida Statutes.

Finding 8: Procurement of Professional Services

Previously Reported

The BCC did not competitively procure certain professional services and did not document that these services could only be obtained from one company.

We recommended that the BCC ensure that professional services are competitively procured or document the reason competitive procurement is not possible in accordance with its policies and procedures.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. 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 reviewed, approved, and signed by the Purchasing Director to document that competitive procurement is not possible. Our tests indicated that professional services acquired during the period August 2014 through January 2015 were competitively procured when required and, as applicable, sole source data sheets were generally completed by the requesting department and reviewed, approved, and signed by the Purchasing Director.

Finding 9: Contractual Services

Previously Reported

The BCC needed to strengthen its procedures regarding the procurement of contractual services.

We recommended that the BCC strengthen 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.

Results of Follow-Up Procedures

The BCC's actions partially corrected this finding.

Contract Design. The BCC strengthened procedures to ensure contracts included adequate provisions to effectively protect its interests. Our test of 13 of the 67 contracts entered into during the period August 2014 through January 2015 disclosed that the BCC's legal counsel reviewed the proposed contracts to ensure the BCC's interests were effectively protected.

Approval and Support for Contract Payments. Our review of 13 contractual services payments totaling \$148,241 made during the period August 2014 through January 2015 disclosed that required approvals

were obtained for the contract payments in accordance with BCC policies and procedures and that contract payments were properly supported at the time the payments were approved and paid.

Monitoring of Contract Payments. CCC personnel assigned a project number to each contract to record contract payments and could compare cumulative contract payments to maximum amounts stipulated in the contracts. The 13 contractual services payments tested did not disclose any contracts that were overpaid; however, BCC records did not evidence a comparison of cumulative contract payments to maximum amounts stipulated in the contracts. Without effectively monitoring contract payments, there is an increased risk that the BCC may make contract payments in excess of the maximum amount stipulated in contracts.

Contract Renewals. Our review of seven contracts renewed during the period August 2014 through January 2015 disclosed that the contract renewals were properly executed in accordance with contract provisions and BCC policies and procedures.

Recommendation: The BCC should strengthen its procedures to ensure that contract payments are properly monitored and do not exceed maximum amounts stipulated in the contracts.

Finding 10: Questioned Expenditures

Previously Reported

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 for the use of promotional gift cards.

We recommended that the BCC strengthen procedures to ensure that the authorized public purpose of expenditures is adequately documented in BCC records and establish written procedures for the distribution and use of promotional gift cards. We also recommended that the BCC 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.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. The BCC incurred \$136,000 in promotional activity expenditures (excluding expenditures related to the Tourist Development Department) during the period August 2014 through January 2015. Our review of 20 promotional activity expenditures totaling \$61,748 disclosed that the authorized public purpose of the expenditures was documented in BCC records.

BCC personnel indicated that no promotional gift cards were purchased or used, no food or beverages were provided to employees attending training, and no facilities or equipment were rented for training when BCC facilities or equipment were available during the period August 2014 through January 2015. Further, our review disclosed no such expenditures.

Finding 11: Purchasing Card Controls

Previously Reported

The BCC needed to strengthen its procedures relating to the use of purchasing cards (p-cards).

We recommended that the BCC strengthen 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 statements that employees and reviewers have certified they reviewed the applicable p-card expenditure report, reports are supported by receipts, all purchases made are for official County business, and the purchases are in accordance with applicable rules and directives; single transaction limits are not exceeded; prior to payment, employees acknowledge 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.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. In April 2013, the BCC updated its p-card policies and procedures to provide for independent reviews, certifications from employees and reviewers, the timely cancellation of p-cards for terminated employees, and acknowledgments that goods or services were received prior to payment. Our review of 23 p-card transactions totaling \$23,843 incurred during the period August 2014 through January 2015 disclosed that an independent review and approval was documented for all purchases; p-card expenditure reports included the required certification statements from employees and reviewers; BCC records evidenced the authorized public purpose served by the expenditures; single transaction limits were generally not exceeded; and prior to payment, employees acknowledged the receipt of goods and services purchased. In addition, our review of p-card records for seven employees who terminated during the period August 2014 through January 2015 disclosed that each employee's p-card was timely canceled.

Finding 12: Advance Payments

Previously Reported

The BCC did not document the necessity of paying for certain goods and services in advance of their receipt, contrary to State law.⁶

We recommended that the BCC 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 BCC operations and the goods or services being paid for are available only if advance payment is made.

Results of Follow-Up Procedures

The BCC's actions corrected this finding. Our review of six advance payments totaling \$140,009 made during the period August 2014 through January 2015 disclosed that BCC records documented that the payments were for goods or services that were essential to BCC operations and the goods or services being paid for were available only if advance payments were made.

⁶ 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.

TRAVEL

Finding 13: Travel Allowances

Previously Reported

Several County Commissioners received monthly travel allowances based on typical month travel statements that were outdated, included unallowed mileage, or did not include adequate descriptions of the travel claimed.

We recommended that the BCC strengthen procedures to ensure that travel allowances are paid based on typical month travel statements that are updated annually, include sufficiently detailed information, and are correctly calculated in accordance with the provisions of State law⁷ and guidance provided in applicable Attorney General opinions.⁸

Results of Follow-Up Procedures

The BCC's actions corrected this finding. Our review of travel allowances provided to five County Commissioners during the period August 2014 through January 2015 disclosed that the travel allowances were paid based on typical month travel statements that were updated annually, included sufficiently detailed information, and were correctly calculated in accordance with the provisions of State law and guidance provided in applicable Attorney General opinions.

CONTRIBUTIONS

Finding 14: Contributions to Private Nonprofit Corporations

Previously Reported

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.

We recommended that the BCC 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. We also recommended that the BCC 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.

⁷ Section 112.061(7)(f), Florida Statutes.

⁸ For example, Attorney General Opinion No. 90-22.

Results of Follow-Up Procedures

The BCC's actions partially corrected this finding. During the period August 2014 through January 2015, the BCC made contributions totaling \$80,395 to nine different private nonprofit corporations. Our review of these contributions disclosed that the BCC did not always document how each contribution served an authorized public purpose or obtain a subsequent accounting from each corporation to document that an authorized public purpose was accomplished. Absent such documentation, there is an increased risk that contributions may be used for nonpublic purposes. On March 17, 2015, the BCC adopted a nonprofit funding policy (Policy) that established eligibility criteria and procedures to apply for and use such funding. The Policy requires the BCC to approve funding applications and purposes before funds are released, applicants requesting \$10,000 or less to certify by affidavit that funds will be used in compliance with the Policy, and applicants receiving over \$10,000 to provide receipts and other documentation that evidence funding was used in compliance with the Policy.

Recommendation: The BCC should continue efforts to ensure that contributions to private nonprofit corporations are only for authorized public purposes.

MOTOR VEHICLES

Finding 15: Fuel Card Purchases

Previously Reported

The BCC had not established adequate controls over the use of fuel cards. In February 2013, the County Administrator notified all departments that receipts for fuel charges at retail locations should be submitted and retained and that reconciliations of fuel charges to receipts should be performed and documented.

We recommended that the BCC continue 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.

Results of Follow-Up Procedures

The BCC's actions did not correct this finding. Our review of December 2014 fuel charges totaling \$8,345 at two departments disclosed that one department did not retain 21 receipts totaling \$946 for fuel charges at retail locations and, as a result, could not confirm that the fuel card vendor accurately invoiced the fuel charges or that fuel costs were accurately charged to BCC departments. 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.

Recommendation: The BCC should enhance procedures to ensure that BCC departments retain all receipts from retail locations and perform reconciliations of fuel charges to those receipts and fuel card vendor invoices.

FINDINGS AND RECOMMENDATIONS OKALOOSA COUNTY CLERK OF THE CIRCUIT COURT

ORGANIZATIONAL OVERSIGHT

Finding 16: CCC Duties and Responsibilities

Previously Reported

The CCC did not ensure that adequate documentation accompanied certain BCC payment vouchers or deny payment of BCC payment vouchers that were inadequately supported.

We recommended that the CCC ensure that adequate documentation accompanies each BCC payment voucher to evidence the validity, legality, and authorized public purpose of the expenditures, or deny payment of the expenditures until such documentation is provided.

Results of Follow-Up Procedures

The CCC's actions partially corrected this finding. According to CCC personnel, BCC payment vouchers were typically reviewed for adequate documentation of the validity, legality, and authorized public purpose of the expenditures before payments were processed. However, as noted in Finding 14, although BCC records for certain disbursements to nonprofit organizations did not evidence the authorized public purpose served, the CCC did not deny payment. Without such documentation, BCC records do not evidence that payments were proper expenditures of public funds.

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

Finding 17: Internal Auditing

Previously Reported

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.

We recommended that the CCC 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.

Results of Follow-Up Procedures

The CCC's actions corrected this finding. In August 2014, the CCC approved an annual work plan that outlines the Department's planned audits and work activities and, in September 2014, the CCC developed policies and procedures governing the operations of the Internal Audit Department.

Finding 18: Fraud Controls and Risk Assessments**Previously Reported**

The CCC had not performed periodic fraud and risk assessments of the operations of CCC departments. We recommended that the CCC ensure periodic fraud and control risk assessments are performed and documented for all CCC departments. We also recommended that the CCC consider the risk assessments obtained by the BCC.

Results of Follow-Up Procedures

The CCC's actions partially corrected this finding. In July 2014, the CCC established a plan and methodology for performing risk assessments of key operations. The CCC also engaged a CPA firm to perform an information technology risk assessment. In September 2014, the CPA firm issued a report that identified several risks, including a lack of written policies and procedures, weaknesses in security controls, disaster plan testing, diminished accountability due to shared use of administrator level accounts, and risk of loss of sensitive data. As of April 2015, the CCC was still in the process of implementing its risk assessment plan, completing risk assessments for all CCC departments, and addressing the information technology risks identified by the CPA firm. Failure to timely implement a risk assessment plan diminishes the CCC's ability to timely address fraud risks and control weaknesses that could adversely affect CCC operations.

Recommendation: The CCC should continue efforts to implement its risk assessment plan, complete risk assessments for all CCC departments, and address the information technology risks identified by the CPA firm.

Finding 19: Conflicts of Interest**Previously Reported**

CCC policies and procedures were not adequate to identify and prevent potential conflicts of interest.

We recommended that the CCC establish policies and procedures designed to identify and prevent potential conflicts of interest.

Results of Follow-Up Procedures

The CCC's actions corrected this finding. In July 2014, the CCC revised its Human Resource Policy Manual to require CCC employees to disclose, at least annually, potential conflicts of interest. The Manual requires that identified potential conflicts of interest be provided to the CCC's Human Resource Department. If potential conflicts of interest are disclosed, CCC personnel indicated that the potential conflicts are provided to the Clerk for further action. In August 2014 and January 2015, two employees disclosed potential conflicts of interest to the CCC's Human Resource Department, which were provided to the Clerk for consideration when making future purchasing decisions.

ELECTRONIC COMMERCE

Finding 20: E-payables and Electronic Funds Transfers

Previously Reported

The CCC had not adopted written policies and procedures, or established effective controls, over transactions involving electronic commerce.

We recommended that the CCC 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.

Results of Follow-Up Procedures

The CCC's actions corrected this finding. The CCC adopted policies in October 2013 and October 2014 that adequately addressed processes for electronic funds transfers and e-payables, respectively.

INFORMATION TECHNOLOGY

Finding 21: Access Controls

Previously Reported

The CCC had not established adequate controls over employee access privileges to data and information technology resources.

We recommended that the CCC 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.

Results of Follow-Up Procedures

The CCC's actions corrected this finding. In November 2013, the CCC adopted a policy that requires supervisory approval of the creation, modification, or deletion of employee access privileges and the periodic review of the propriety of employee access privileges. Additional policies and procedures requiring independent, documented reviews of journal entries and changes made to the payroll system and master vendor file were also adopted and implemented to help ensure their propriety. In April 2015, CCC personnel performed a review of employee access privileges and updated privileges as deemed appropriate.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(2)(j), Florida Statutes, no later than 18 months after the release of a report on the audit of a local government, we must perform appropriate follow-up procedures as we deem

necessary to determine the audited entity's progress in addressing the findings and recommendations contained within our previous report. Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an audit of the BCC and CCC and issued our report No. 2014-068. The objectives of this audit were to determine the extent to which the BCC and CCC had taken, or were in the process of taking, actions to address the findings included in our report No. 2014-068. Our audit included transactions, as well as events and conditions, occurring during the period August 2014 through January 2015, and selected actions taken subsequent thereto.

This follow-up audit was conducted in accordance with applicable 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.

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

For those 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 activities and functions included within the scope of our audit; exercising professional judgment in considering significance and audit risk in the design and execution of 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.

Our audit included the examination of pertinent BCC and CCC records and transactions, inquiry of BCC and CCC personnel, observation of procedures in practice, and additional procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning the relevant population value or size and quantifications relative to the items selected for examination. Specifically, we:

- Determined whether the BCC performed and documented periodic fraud and control risk assessments of the operations of BCC departments, prepared action plans to implement and monitor controls, and enhanced its anti-fraud policies and procedures to include a written fraud response plan.
- Determined whether the BCC communicated the names and positions of applicable local officers to the Florida Commission on Ethics and whether local officers filed required statements of financial interests.
- Determined whether the BCC enhanced its policies and procedures to identify potential conflicts of interest and prevent conflicts from occurring. Reviewed expenditures to determine whether payments were made to entities for which potential conflicts of interest may exist.
- Determined whether the BCC recorded the check number, amount, payee, and authorized public purpose of each expenditure in its minutes.

- Determined whether the BCC adopted formal policies addressing an acceptable level of unrestricted fund balance in the General Fund and developed a formal plan to replenish the unrestricted fund balance should it fall below the target level.
- Determined whether the BCC established separate accountability for each type of fuel tax to demonstrate fuel taxes were spent for authorized purposes.
- Reviewed LETF disbursements to determine whether the BCC obtained adequate support for all disbursements. Also, determined whether the BCC documented its decision as to how disbursements represent allowable uses of LETF moneys, provided such documentation to the CCC, and ensured that recipients provided the CCC with an accounting of the use of LETF moneys.
- Reviewed the BCC's acquisition of professional services to determine whether the services were competitively procured or the BCC documented the reason competitive procurement was not possible in accordance with its policies and procedures.
- Reviewed BCC contracts and related contract payments to determine whether the contracts included adequate provisions to effectively protect the interests of the BCC; contract payments were properly supported at the time payments were approved and paid; required approvals were obtained for all contract payments in accordance with BCC policies and procedures; and contract payments were properly monitored and did not exceed maximum amounts stipulated in the contracts. Reviewed contract renewals to determine whether they were properly executed in accordance with contract provisions and BCC policies and procedures.
- Reviewed promotional expenditures to determine whether the BCC adequately documented the authorized public purpose of the expenditures. Reviewed training-related expenditures to determine whether the BCC documented the necessity of providing food and beverages to employees attending training and paying for facility and equipment rentals when its own facilities were available. Inquired and reviewed records to determine whether the BCC used promotional gift cards during the audit period, and if so, whether the BCC established written procedures over the distribution and use of promotional gift cards.
- Reviewed p-card purchases to determine whether an independent review and approval of purchases was documented; p-card expenditure reports included the required certifications that users and approvers reviewed the applicable reports, the reports were supported by receipts, and the purchases were for official County business and in accordance with applicable rules and directives; single transaction limits were not exceeded; prior to payment, employees acknowledged the receipt of goods and services purchased; and BCC records evidenced the authorized public purpose served by the expenditures. Reviewed BCC records to determine whether p-cards for terminated employees were timely canceled.
- Reviewed advance payments to determine whether the payments were paid only if the payments resulted in a savings that was equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments were essential to BCC operations and the goods or services being paid for were available only if advance payments were made.
- Reviewed typical month travel statements for employees receiving travel allowances to determine whether the statements were updated annually and included sufficiently detailed information. Determined whether travel allowances were correctly calculated in accordance with the provisions of State law and guidance provided in applicable Attorney General opinions.
- Determined whether the BCC adopted written policies and procedures that address the 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. Reviewed contributions to determine whether the BCC documented how each contribution served

an authorized public purpose and obtained a subsequent accounting from each corporation to document that the authorized public purpose was accomplished.

- Reviewed BCC records to determine whether BCC departments retained fuel receipts from retail locations and reconciled fuel charges to those receipts.
- Reviewed BCC expenditures to determine whether the CCC ensured adequate documentation accompanied each BCC payment voucher to evidence the validity, legality, and authorized public purpose of the expenditures, or denied payment until such documentation was provided.
- Determined whether the CCC adopted policies and procedures governing the operations of the Internal Audit Department and approved periodic work plans that detailed the Department's planned audits and work activities.
- Determined whether the CCC performed and documented periodic fraud and control risk assessments of CCC departments.
- Determined whether the CCC adopted policies and procedures designed to identify potential conflicts of interest and prevent conflicts from occurring. Reviewed expenditures to determine whether payments were made to entities for which potential conflicts of interest may exist.
- Determined whether the CCC adopted written policies and procedures addressing, and established adequate controls over, electronic commerce transactions to ensure adequate integrity, security, confidentiality, and auditability of such transactions.
- Reviewed access privileges assigned to CCC employees to determine whether those access privileges were appropriate and necessary given the employees' assigned job responsibilities. If incompatible access privileges existed, determined whether the CCC documented and retained evidence that compensating controls were performed.
- 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 objectives of the audit.
- Prepared and submitted for management response the findings and recommendations 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

Pursuant to the provisions of Section 11.45(2)(j), Florida Statutes, I have directed that this report be prepared to present the results of our follow-up procedures regarding findings and recommendations included in our report No. 2014-068, operational audit of the Okaloosa County Board of County Commissioners and the Okaloosa County Clerk of the Circuit Court.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



State of Florida

Board of County Commissioners

August 18, 2015

Sherrill F. Norman
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Okaloosa County's Response to the Preliminary and Tentative Audit Findings and Recommendations on the Response to Auditor General's Report No. 2014-068

Dear Ms. Norman:

In response to your office's Preliminary and Tentative Audit Findings and Recommendations on the Response of the Board of County Commissioners, and the Clerk of the Circuit Court to Auditor General's Report No. 2014-068, please find the joint response of the Okaloosa County Board of County Commissioners and the Clerk of the Circuit Court. The joint response of the Board and the Clerk contains their formal response and comments to each of follow up procedures of your office directed to the previous Findings that had been contained in Report No. 2014-068.

We appreciate the thoroughness demonstrated during the review process. If you require any further information, please do not hesitate to contact us through the County Administrator's Office at 850-651-7515.

Sincerely,

Nathan D. Boyles
Chairman, Board of County Commissioners

Enclosures

Courthouse
101 E. James Lee Blvd. • Crestview, FL 32536
(850) 689-5030 • Fax: 689-5059

1804 Lewis Turner Blvd., Suite 100
Fort Walton Beach, FL 32547
(850) 651-7105 • Fax: 651-7142

The Board of County Commissioners is in receipt of the Preliminary and Tentative Audit Findings and Recommendations which may be included in the operational audit of the Auditor General on the extent to which the Okaloosa County Board of County Commissioners (BCC) and the Clerk of the Circuit Court (CCC) had taken, or were in the process of taking, corrective actions to address the findings included in the Auditor General's Report No. 2014-068. Please find the Response of the BCC to the Preliminary and Tentative Findings and Recommendations.

Finding 1: Fraud Controls and Risk Assessments

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and have implemented the recommended corrective actions.*

Finding 2: Statements of Financial Interest

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and had implemented the recommended corrective actions.*

Finding 3: Conflicts of Interest

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and had implemented the recommended corrective actions.*

Finding 4: BCC Duties and Responsibilities

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and had implemented the recommended corrective actions.*

Finding 5: Fund Balance – General Fund

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.*

The BCC has been attempting to increase the level of reserves in a responsible manner through its budget process. In both Fiscal Years 2013-14 and 2014-15, the Board has approved an increase in the reserves. Recognizing that the ability to increase reserves generally requires either an increase in tax revenue or a reduction of existing services, the approach adopted by the Board is to incorporate those adjustments in a reasoned and appropriate manner.

Finding 6: Accounting for Fuel Taxes

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.

The specific issue raised has been addressed with the Clerk's office and it has been encouraged to modify its accounting to separate accumulated fuel tax proceeds. Further, within the current budget being proposed for Fiscal Year 2015-16, the Board has separated the proposed expenditure of respective fuel taxes for accounting purposes which will allow the tracking of those revenues, prospectively.

Finding 7: Use of Law Enforcement Trust Fund Moneys

COUNTY RESPONSE: *The County agrees with the audit finding and recommendation.*

As noted in the Finding, the County adopted procedures relating to the application, approval and accounting of the Law Enforcement Trust Fund moneys. These were amended in January, 2014. Additional efforts are being undertaken to modify the policies to better clarify the respective monitoring responsibility between the Sheriff's Office, the Clerk and the County. 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.

Finding 8: Procurement of Professional Services

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and have implemented the recommended corrective actions.*

Finding 9: Contractual Services

COUNTY RESPONSE: *The County agrees with the audit finding and recommendation.*

In the Follow-Up conducted, the Auditor General found that all areas had been corrected with the exception that the BCC records maintained by the CCC personnel did not evidence a comparison of cumulative contract payments to maximum amounts stipulated in the contracts. The County will continue to coordinate with the Clerk to assure that monitoring of Contract Payments is effectively managed.

Finding 10: Questioned Expenditures

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and had implemented the recommended corrective actions.*

Finding 11: Purchasing Card Controls

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and have implemented the recommended corrective actions.*

Finding 12: Advance Payments

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and had implemented the recommended corrective actions.*

Finding 13: Travel Allowances

COUNTY RESPONSE: *The County concurs with the results of the Follow-Up Procedures directed to the previous Finding and agrees that the BCC has fully and completely addressed and had implemented the recommended corrective actions.*

Finding 14: Contributions to Private Nonprofit Corporations

COUNTY RESPONSE: *The County agrees with the audit finding and recommendation.*

As noted, the County has implemented a policy for the funding of nonprofits in March, 2015. The contributions that were examined as part of review occurred prior to the implementation of that policy. The County believes that the adopted policy will address the concerns raised in the audit. The County will continue to assure that adequate documentation will be provided which establishes an authorized public purpose or obtain a subsequent accounting from each corporation to document that an authorized public purpose was accomplished.

Finding 15: Fuel Card Purchases

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 primary deficiency relates to the acquisition of fuel at a non-County owned and operated facility. To address this issue, the County has implemented procedures which would limit the ability of employees to acquire fuel at locations other than the County owned and operated fuel facility. This will restrict the ability of employees from using non-County owned and operated facilities and limit the need for additional documentation. The County will continue to review its procedures and controls to provide assurance that adequate documentation is available.

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

JD PEACOCK II

CLERK & COMPTROLLER, OKALOOSA COUNTY, FLORIDA



August 13, 2015

Sherrill F. Norman
Auditor General-State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Preliminary and Tentative Findings to the Follow-up Report on Okaloosa County Board of County Commissioners and Okaloosa County Clerk of the Circuit Court

Dear Mrs. Norman:

In response to the preliminary and tentative audit findings and recommendations of the above referenced audit provided by your office on July 31, 2015 please find enclosed the response of the Clerk of the Circuit Court.

While the original report addressed areas of both the Board of County Commissioners and Clerk of Courts, many of the findings required joint cooperation of both entities. Enclosed are my responses to the related findings contained in the report.

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

Respectfully,

J D Peacock, II
Clerk of the Circuit Court and Comptroller

Encl

C: Board of County Commissioners
John Hofstad, County Administrator

COURTHOUSE • 101 E. JAMES LEE BLVD. • CRESTVIEW, FLORIDA 32536 • (850) 689-5000

COURTHOUSE ANNEX EXTENSION • 1940 LEWIS TURNER BLVD. • FORT WALTON BEACH, FLORIDA 32547 • (850) 651-7200

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OKALOOSA COUNTY CLERK OF COURT & COMPTROLLER

Responses to Follow-Up Report

ORGANIZATIONAL OVERSIGHT

Finding 16: CCC Duties and Responsibilities

CCC Response Follow Up: *The CCC strengthened enhanced procedures to verify BCC staff properly document public purpose for all expenditures. The BCC staff, as identified in Finding 14, developed a nonprofit funding policy that the CCC will utilize to ensure adequate documentation and authorized public purpose for these nonprofit organizations, otherwise, payment will be denied.*

FRAUD AND ETHICS CONTROLS/RISK ASSESSMENT

Finding 18: Fraud Controls and Risk Assessments

CCC Response Follow Up: *Clerk staff has undertaken a Control and Fraud Risk Assessment to include all departments under the Clerk of Courts. Methodology for the entity-wide study is based on guidance provided by the Enterprise Risk Management (ERM) model introduced by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The concept being used seeks to engage senior management and the Clerk in identifying the Clerk's Key Business Functions. From there the assessment tool requires staff to identify detailed strategies needed to carry out those business functions in arriving at a strategic plan for the Clerk. The second seeks management's assessments of the relevant risks, including the risk of fraud, that have a material effect on the achievement of the key business processes identified in the strategic plan. The final and most crucial phase identifies controls in place to mitigate the risks identified. The project includes assessing the effectiveness of those controls and identifying residual risks as well as an action plan to address unacceptable risk levels. The Clerk's senior management team is in the final phase of this project and anticipates completion in September 2015 prior to the fiscal year end. Once completed, the project will provide a tool and action plan for an annual risk assessment.*