



ALEX ALFORD

CLERK OF COURTS & COUNTY COMPTROLLER, WALTON COUNTY, FLORIDA

Walton County
Tourist Development Council
Audit

Alex Alford
Clerk of the Circuit Court
And County Comptroller

Internal Audit Department

Johnny Street
Internal Audit Manager

Report 1301
October 2013

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December 10, 2013

Board of County Commissioners

The Internal Audit Department has conducted an audit of the Walton County Tourist Development Council. The program accounts were reviewed for the period of January 1, 2010 to October 31, 2012 to determine if internal controls for the Tourist Development Council (TDC) were working properly. Also, to determine if the TDC was in compliance with applicable statutes, laws, rules, regulations, policies, and procedures.

The audit was conducted in accordance with generally accepted government auditing standards, and included such tests as considered necessary for the area under review. These standards require the audit to be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions. Based on the audit objectives, Internal Audit believes the evidence obtained provides a reasonable basis for the findings and conclusions.

Responses to our Recommendations for Improvement were received from the TDC Executive Director and are incorporated herein and also included as Attachment A.

Internal Audit appreciates the cooperation of the personnel of the TDC during the completion of this audit.

Approved:

Alex Alford
Clerk of Circuit Court
And County Comptroller

Johnny Street
Internal Audit Manager

c: Jim Bagby, TDC Executive Director

EXECUTIVE SUMMARY



Executive Summary

The Internal Audit Department conducted a review of the Walton County TDC. The review included an examination of TDC's internal controls for the period of January 1, 2010 through September 30, 2012. The objective of the audit was to determine if adequate controls existed over the financial operations that would ensure that revenue and expenditures were accurate, timely, and legitimate. Also, policies and procedures were reviewed to ensure that the TDC complied with applicable state statutes, county ordinances, and county policies and procedures.

The CPA Firm of Carr, Riggs, and Ingram (CRI) conducted agreed upon procedures for credit cards purchases and issued an Independent Accountant's Report dated November 3, 2010. In addition, CRI reviewed the \$250 gift card program and issued a Memorandum of Understanding dated September 30, 2010; therefore, as referenced in Government Audit Standards, Internal Audit relied on the work performed by the professional accounting firm and limited the review of the areas noted in their documentation.

In the opinion of internal audit, controls over TDC revenue and expenditures were adequate during the audit period, except in the area of document retention for the gift card program. Based on the results of the test work performed, nothing came to the auditor's attention to indicate that the TDC's revenue and expenditure transactions were not materially accurate or complete. Opportunities for improvement were noted in certain areas and are included in this report. The recommendations are summarized as follows:

In an attempt to bring tourist back to the gulf coast after the BP oil spill, the TDC purchased 4,900 \$250 gift cards, valued at \$1,225,000, to be issued to tourist who booked and paid for a minimum three (3) night stay at certain rental locations. In addition, they purchased 4,040 BP gas cards for a similar program and also for promotional distribution. Because of inadequate documentation, Internal Audit could not ensure the cards were distributed as intended.

The TDC would sell up to 50 of the gas cards to lodging partners. The TDC would hold the payment at the administration office instead of depositing it. After the partner provided documentation that the gas cards were appropriately distributed, they would refund the money to the partner. In this case, they would return the payment they were holding.



The TDC provided funding that was not allowed by Florida Statute. As part of the effort to bring tourist back after the oil spill the TDC promoted eco-tourism. The TDC entered into an agreement with the Biophilia Center to open additional hours for visitors. This facility is outside of the subcounty special taxing district.

In addition, the county entered an agreement with the South Walton Turtle Watch group for \$80,000 to monitor sea turtle activity. Further, the TDC established a code enforcement section to help educate tourist on the county's codes relating to the use of the beaches. In the opinion of Internal Audit, Florida Statutes do not specifically allow the expenditure of tourist tax revenue for these services.

Certain repairs completed on the TDC vehicles should have been covered under factory warranties, vehicle recalls, and vendor warranties. The TDC did not have a mechanism in place that would allow them to monitor and track repairs. In addition, the vendor performed certain diagnostic tests and charged an hour labor rate. Some of these tests could have been done at parts stores for free.

An agreement between the TDC and The Florida Department of Emergency Management (FDEM) was signed by the executive director of the TDC. This agreement was a material obligation for the county and required the county to perform certain tasks or repay the funding. The contract should have been between the FDEM and the county and signed by the Board chair.

The TDC has a gift shop at the visitor center that sells promotional items. The cashiers do not issue receipts unless requested, at which time a handwritten receipt is completed. The TDC does not use the cash register as intended. Additionally, they hold receipts until the end of the month before depositing.

Florida Statute required the TDC council to present a tourist development plan to the Board for approval. The statute mandated that the expenditures be listed by special project or use; however, the plan as adopted lists expenditures in general categories. The plan has not been amended since before the last ½ cent tax was enacted.

A purchase of wine glasses was split into two purchase orders that appear to be an attempt to avoid the purchase limit of \$25,000 set for the TDC executive director.



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The TDC has a nine member advisory council that is tasked with review of the TDC's expenditures and reports any expenditure deemed to be unauthorized, per Florida Statute 125.0104 (5), to the Walton County Board of County Commissioners (Board). They also submit the tourist development plan to the Board for approval. The council per section (4)(e) of the statute is required to be composed of the Board chairman or designated Board member and two elected municipal officials. Since the subcounty special taxing district of the TDC does not have an incorporated municipality within its borders, the council has two substitute elected officials. One of these elected officials is from the South Walton Fire District and one is from the South Walton Mosquito Control District.

The TDC has already undertaken corrective action on several of the issues noted above. The Internal Audit Department commends the efforts of the TDC in ensuring that Walton County has an efficient and effective tourism program.

INTRODUCTION



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Background

A special referendum was held September 30, 1986, in which the voters of Walton County approved the imposition of a two percent tourist development tax for the promotion of tourism and for beach improvement, maintenance, re-nourishment, restoration, and erosion control. In addition, Ordinance 1986-18 was adopted on July 21, 1986 which established the Walton County Tourist Development Council and the tourist development plan. This tax was imposed in the sub-county special district which includes all rental units south of the inter-coastal waterway.

The Board, by extraordinary, vote passed and adopted Ordinance 1998-23 which levied an additional one percent (1%) tax in the sub-county special district. The funds from this additional penny were to be used for the purpose of beach re-nourishment and maintenance. Additionally, on February 24, 2004 the Board passed and adopted by majority vote Ordinance 2004-05. This ordinance levied a fourth cent tourist development tax. The proceeds from this tax are earmarked by the TDC for the purpose of promoting the 'shoulder season' and for new product development. Finally, the Board passed and adopted by a majority vote plus one, Ordinance 2009-11 which levied an additional half cent (.5%) tourist development tax to be used exclusively for the attraction of a low cost air carrier into the Northwest Florida Gulf Coast region.

The tourist bed tax is applied at a rate of four and one half percent (4.5%) for short term rentals that are south of the inter-coastal waterway. The tax generated in excess of 16 million dollars in revenue for the TDC for fiscal Year ending 2012. This revenue is governed by Florida Statute 125.0104 and is used for the promotion and advertising of tourism for the subcounty special district. In addition, the funds are used to support the administration of the TDC, beach maintenance and nourishment, in support of beach facilities as well as certain cultural and art centers in the subcounty special district. Finally, a portion of the funds are to be used to attract a low cost air carrier to the Northwest Florida area.

The statute requires the Board to establish an advisory council by ordinance and is to be composed of nine members appointed by the Board. The council is tasked with continuously reviewing expenditures of the TDC and reporting any perceived unauthorized expenditures to the Board. The council is to meet quarterly and from time to time recommend to the Board uses for the tourist development tax revenue. This is presented to the Board through the tourist development plan and adopted by county ordinance as prescribed by state statute.



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The plan sets forth the anticipated revenue from the tax district in which the tourist developed tax was enacted and lists, in order of priority, the proposed uses of the tax revenue by specific project or special use as authorized under subsection (5) of the applicable statute. The plan must also include the approximate cost or expense related to each project or use. This plan may only be changed by county ordinance.

Tourism was adversely affected by the British Petroleum (BP) Deepwater Horizon oil spill on April 20, 2010. The Florida Division of Emergency Management and BP provided grants and advances of funds to help advertise and promote tourism in the State of Florida. These funds were budgeted through the TDC and used to help bolster the ailing tourism industry caused by fear of oil on the beaches.

Scope, Objectives, and Methodology

The review of the TDC was conducted for the period of January 1, 2010 through September 30, 2012. The objective of the review was to determine if the TDC's internal controls and accounting procedures were adequate. The proper segregation of duties for the receipt of money, deposits, and inventory control was examined. Additionally, the review was completed to ensure that TDC expenditures were proper, accurate, and for the benefit of the subcounty special taxing district.

Samples of TDC revenue and expenditures were selected from the Account Activity Listing recorded in the Navaline Accounting System. These samples were traced through the system and compared to supporting documentation on the RVI imaging program and from the TDC files. TDC contracts, agreements, and grants were reviewed for compliance with terms, conditions, compensation and expenditures.

Internal Audit also reviewed the revenue received from the sale of TDC promotional items at the visitor center. The internal controls used for safeguarding inventory and sales proceeds were reviewed as well as the deposit of those funds. Finally, since the TDC was tasked with disbursing the funds received as a result of the BP oil spill, Internal Audit included these accounts in the TDC review.



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Overall Conclusion

Based on the results of the work performed, the TDC provided good internal control over the financial and accounting activities and materially complied with applicable laws, rules, and regulations and policies and procedures. In the opinion of Internal Audit, the system of internal controls employed by the TDC was adequate. Recommended improvements are included in this report.

**RECOMMEDATIONS FOR
IMPROVEMENT**



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1. **Controls Over TDC's Gift Card Program were Inadequate.**

In April 2010, an oil spill at BP's Deepwater Horizon oil platform in the Gulf of Mexico affected the tourism industry on the Gulf Coast. Because of the spill, British Petroleum (BP) provided the TDC with financial support through grants and settlements to help boost the local tourism economy. The TDC used a portion of these funds to promote a \$250 gift card program and \$50 BP gas card program. These cards were issued to individuals that reserved and paid for lodging accommodations from TDC lodging partners and based on preset requirements. The conditions and requirements did not prevent local residents and visitors from taking undue advantage of the program.

The CPA firm of Carr, Riggs and Ingram, L.L.C. reviewed the \$250 gift card program and issued a memorandum of understanding dated September 30, 2010. They determined that the supporting documentation was not retained when the gift cards were issued to individuals who came to the TDC administration, with their receipts. Internal Audit expanded on their review, which resulted in the following conclusions.

- A. The TDC purchased \$250 gift cards redeemable as follows; 4,100 Silver Sands Factory Stores, 500 Southwest airlines cards good for future travel, and 300 Region's gift cards totaling \$1,225,000. In order to qualify for a gift card the visitor was required to book and pay for a minimum three (3) night stay with a South Walton lodging partner. A paid receipt was required to be brought to the TDC visitor center in order to receive a gift card. As noted in the CRI review, the TDC did not retain adequate documentation that would ensure all gift cards were appropriately issued.

Internal Audit requested a list of individuals that received a \$250 gift card. The TDC provided a spreadsheet which listed the individuals receiving a gift card and in most cases, their address. It was determined that the spreadsheet provided to audit and used by the TDC to record the issue of the cards was incomplete. A total of 527 names were missing which equates to \$131,750 in gift card value. The TDC was able to produce a different spreadsheet with 4,857 names which is still 43 recipients short or \$10,750. However, without verifiable documentation these spreadsheets could not be confirmed as legitimate recipients. Based on the information reviewed, Internal Audit found no indication that these cards were not properly issued.



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In addition, neither TDC or county employees or local residents were restricted from qualifying for and receiving the gift cards. From interviews conducted by Internal Audit, it was determined that some local government employees and residents had rented camping spaces from local partners for \$75 for three nights. They paid for the stay and received a \$250 gift card, (net \$175). In another instance an individual paid for the entire stay when the reservation was made, received their gift card, then canceled their reservation and paid a small cancellation fee. Also, the cards were not restricted to one per household. It was determined that at least one household received three \$250 gift cards, (net \$525) and several others two (net \$350).

- B. The TDC also purchased 4,040 BP gas cards for distribution through promotional giveaways as well as for paid stays as with the \$250 gift cards. In one of the programs administered, the TDC would sell up to 50 gas cards to a lodging partner. When the partner would validate the proper issuance of these cards to visitors, they would receive a refund. The TDC would hold the lodging partner's payment and then return it to them after proper documentation was received from the lodging partner. This created the risk of lost revenue from stale, lost, or expired checks.

Although the program resulted in heads-in-beds, it should have been restricted to the promotional activities undertaken to advertise tourism outside of the immediate area. Most local residents were aware of the condition of the beaches after the oil spill; therefore, the need to provide incentives to these visitors should have been limited. This program was intended to entice tourist to return the beaches of South Walton and ensure all potential tourist that the beaches were open, oil free, and safe for swimming. Based on the lack of documentation retained by the TDC, Internal Audit could not ensure that all gift cards were issued appropriately.

Internal Audit Recommends the TDC improve their internal controls to ensure any other such programs will have minimal risk of inappropriate activity. The TDC should ensure;

- A. Proper controls exist to ensure activities and programs are properly documented and the risk of misuse and abuse is limited.



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- B. All checks received from lodging partners are deposited when received and that all refunds are requested through County Finance.

Management's Response:

1.A. Management acknowledges, as it did after the Carr, Riggs and Ingram review, that the TDC did not retain adequate documentation with respect to the \$121,000 in gift cards and cannot provide any documentation for \$10,750 in gift cards.

1.B. Management acknowledges that proper management practices were not followed with the gas card program. This includes both cards and checks not being properly handled by the TDC.

Corrective action: Management will recommend that the BCC authorize the hiring of a Director of Administration who has a background in accounting, finance or business to oversee future business operations. Management will put in place controls both on the handling and accountability of any future gift card programs.

2. TDC Provided Questionable Funding for Facilities and Services.

The TDC provided funding to a facility outside of the subcounty special taxing district. In an effort to bring tourist back to South Walton County after the oil spill, the TDC promoted eco-tourism as an alternative to the beaches. The TDC entered into an agreement with the E O Wilson Biophilia Center to open to the public for visitors. In return for being open to the public, the TDC provided funding in the amount of \$59,750. This funding was for the operation of the facility and not promotion. The TDC promoted the facility on the Beaches of South Walton website.

Florida Statute 125.0104(5) Authorized Uses of Revenue (a) states in part that the tourist tax received may be used for this type of facility; however, it also states that the facility must be located within the boundaries of the subcounty taxing district. Paragraph (5)(a)2 allows tax revenues to be expended for an activity, service, venue, or event if one of its main purposes is to attract tourist. In the opinion of Internal Audit, if the facility had used the funds for promotion of the facility to tourist, the expenditure might have been acceptable. However; the funds were an incentive for the center to open additional hours to visitors and provide tours. Tourist tax revenue expended contrary to statutes increases the risk of the counties liability for repayment of tax revenue from the general fund.



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In addition, the TDC has been funding the South Walton Sea Turtle Watch (turtle watch). The Board entered into an agreement with the turtle watch for \$80,000, to monitor sea turtle activity. As noted above, this service does not have as one of its main purposes the attraction of tourist (FS 125.0104 (5)(a)2 and thus not authorized.

Finally, the TDC has a Code enforcement section with a budget of approximately \$120,000. They have two officers and maintain two vehicles. This function is funded through New Product Development, or the fourth penny. Internal Audit could not find any provision in FS 125.0104 that allows funding of the turtle watch or code enforcement.

Internal Audit Recommends that the TDC ensure that all expenditures of tax revenue from the tourist tax meet the conditions set forth in Section (5) of the statute. In the event that the authorized expense is in question a legal opinion should be sought or legislative ruling based on the statutes allowed uses.

Management's Response:

2. Management disagrees with the findings that questionable funding was provided for facilities and services. The TDC believes that there exists an honest disagreement in the interpretation of the statute governing TDC operations. The Comptroller cites Florida Statute 125.0104 (5)(a)1 that limits the TDC to expending funds for venues in the special taxing district and 2 to those whose main purpose it to attract tourists.

The County has maintained that funding for the E.O. Wilson Biophilia Center was authorized under FS 125.0104 (5)(b) as the criteria – county with a population of less than 750,000; a nature center operated by a not-for-profit organization – were met. The question of whether or not funds authorized by this section can be spent outside the special taxing district is a legal question outside the expertise of management. It should be noted that the TDC legal counsel has opined that the expenditure was permitted under the statute. Absent a contradictory legal opinion management must respectfully disagree with the Comptroller's finding.

3. Vehicle Repair Expenses Need Additional Scrutiny.

Because of the location of the TDC Maintenance facility, the TDC uses a local vendor for vehicle repairs. The TDC requires a quick turnaround time on vehicle repairs so that beach maintenance and thus the beaches are not neglected. As part of the expenditure review, Internal Audit evaluated a sample of vehicle repairs. After noting several concerning issues, Internal Audit expanded the review to ensure proper coverage.



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The repairs covered a four year period and 15 vehicles. The TDC expended over \$40,000 on repairs during this period. It was noted that certain repairs were completed by the vendor that should have been under factory or vendor warranty. A pattern of repairs noted during the review were; six drive shafts, eight blower resistors, seven hub bearings, five starters on three vehicles, five brake lines on three vehicles, and four 4WD Motor/Actuators.

An additional red flag for the repairs, were the corresponding repairs on two identical vehicles. It appeared that after a repair was made on one of these vehicles, the identical problem would have to be repaired on the other vehicle within six to eight months. It was also noted that the vendor would charge up to one hour labor (\$75-\$80) to diagnose a problem. On most occasions this required only scanning the vehicle codes, which most parts stores will do for free.

Internal Audit is aware that vehicle use on the beaches is demanding on most vehicles; however, the TDC maintenance area did not closely monitor repairs to the vehicles, which would help identify any patterns of abuse or recurring issues. After this information was brought to their attention, the maintenance area has established a monitoring system that will allow them to track repairs to each vehicle. Without continued monitoring the TDC cannot ensure their vehicles are receiving proper repairs, or whether the vehicle is suitable for beach use. In addition, monitoring repairs could help in developing a preventive maintenance program that would help identify potential problems that may occur.

Internal Audit Recommends that the TDC maintenance area continue to monitor vehicle repairs to ensure they are needed and proper. In addition, since these vehicles require more than the normal maintenance, the TDC should consider obtaining bids or quotes from local vendors to secure the best repair rates for vehicle repair.

Management's Response:

3. Management acknowledges poor procedures and processes existed for tracking maintenance of its vehicle fleet especially with respect to warranty services.

Corrective action: Management has instituted controls to ensure all necessary maintenance is tracked by each vehicle and that before any work is done the Beach Maintenance Manager personally ensures that the work is not covered by a warranty.



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4. An Agreement was Signed by the TDC Instead of the Board.

After the BP oil spill the Florida Division of Emergency Management (FDEM) advanced the TDC \$1,350,000,000 to develop a tourism advertising campaign related to the oil spill. The requirement was that the funds be spent for that purpose within a specified period of time and required that documentation for expenditures be provided to the FDEM and retained by the TDC. The Division issued a memorandum of understanding (mou) between itself and the Walton County TDC. This (mou) was signed by the executive director of the TDC.

Since this (mou) obligated the County to accept, control, and disburse a material amount of funding, Internal Audit believes that in essence the (mou) constitutes a contract or agreement between the County and the State and thus should have been executed by the Board in lieu of the TDC. The (mou) requires funds not used as prescribed to be returned to the Division. This creates a substantial risk that the County could be required to repay the funds from the general fund if the expenditures did not meet with the Division's approval.

Internal Audit is aware that the Board adopted Resolution 2010-64 on July 13, 2010 amending the TDC budget for these funds; however this obligation was executed by the director on June 25, 2010. Internal Audit could not locate any documentation indicating that the Board was aware of this mou prior to its execution.

Internal Audit Recommends that any contracts, agreements, or (mou)s, obligating the County to perform specific requirements and including material funding, be executed by the Board.

Management's Response:

4. Management agrees with the facts as stated in the Comptroller's report but takes exception to the findings.

A ceremonial check presentation was scheduled in Tallahassee at which the TDC executive director signed the MOU in question. The County had not authorized anyone to accept funds of this nature on its behalf so whether it had been a county commissioner, the county administrator or the TDC executive director this would have been a violation. There is no evidence that any funds were expended prior to the county passing Resolution 2010-64, which appears to have been passed at the first meeting of the county commission after the signing of the MOU. Had such funds been expended then the Comptroller's findings would carry more validity.



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5. TDC Gift Shop Needs Tighter Controls.

The TDC maintains a gift shop at the visitor center. The TDC offers for sale several promotional items which include shirts, t-shirts, hats, cups, glasses, etc. The TDC has a cash register which is used to record merchandise sold; however, the cashier retains the receipt from the sale. If the purchaser requests a receipt, the cashier will use a county receipt book to honor the request. The register receipt is used at the end of the day to document the daily sales. The daily receipts are placed in a dated envelope and placed in the safe. The receipts are sent to Finance once per month for deposit. The TDC personnel are not familiar with the operation or capabilities of the register.

In addition, the TDC retained sales in order to increase their change fund. The TDC balance sheet indicated that the TDC had a \$50 change fund to be used in the visitor center; however, to help the cashiers maintain adequate funds to provide customers with change, the TDC kept up to \$150 of sales. By increasing their change fund in this fashion, the TDC failed to timely remit sales tax on the sale of merchandise. The TDC has requested and received an increase in the change fund from Clerk's Finance and the state sales tax has been remitted.

The TDC does not have adequate controls in place that would help ensure all sales are properly recorded, documented, and deposited. By holding receipts for a month the TDC increases the risk of lost, misplaced, or misappropriated funds.

Internal Audit Recommends the TDC develop adequate procedures for the gift shop operations that will ensure all sales are recorded properly. In addition, all sales proceeds should be deposited daily. Also, all employees using the cash register should be trained on the operations and capabilities of the register.

Management's Response:

5. Management acknowledges poor procedures, processes and financial controls existed in the Visitor's Center.

Corrective action: Proper financial controls have been put in place. It is management's intent to eventually put the Visitor's Center under the Director of Administration to provide even more financial oversight.



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6. The Tourist Development Plan Should be Better Defined.

Pursuant to Florida Statute 125.0104(4)(c), the tourist development council (council) is required to develop and submit to the Board a tourist development plan. If the Board approves of the plan, it is to be adopted as part of the ordinance levying the tax. The statute states in part that the plan will have a list in order of priority the uses of the tax revenue by specific project or special use of authorized expenditures. In addition, the plan has to include the approximate cost or expense allocation for each project or use. The most recently adopted plan was enacted by Ordinance 2008-33 and adopted September 10, 2008; however, the plan does not adequately reflect the requirements set forth by the statute.

Section (4)(d) of the statute states that the plan cannot be substantially amended unless done by ordinance. Subsequent to the date this ordinance was adopted the Board has increased the TDC tax by ½ percent (.05) used to attract a low cost air carrier (Ordinance 2009-11 adopted August 11, 2009). This revenue and related use has not been included in the tourist development plan by way of an ordinance.

Additionally, the plan as submitted in Ordinance 2008-33 list the uses by general categories along with a range of expenditures and not by specific project or use. The Board enacted ordinances levying a total of four and one half cents for each dollar. The ordinances set forth specific uses for each of the pennies making up the 4 ½ percent as follows;

- Ordinance 1986-18 Pennies 1 and 2
 - Promote and Advertise Tourism,
 - Beach Improvement, Maintenance, Re-nourishment
 - Beach Restoration and Erosion Control
- Ordinance 1998-23 3rd Penny
 - Beach Re-nourishment and Maintenance
- Ordinance 2004-05 4th Penny
 - Promotion of Shoulder Season
 - New Product Development
- Ordinance 2009-11 ½ Penny
 - Attraction of Low Cost Air Carrier

The above uses are also evidenced by the information identifying the funding of the TDC on their website; visitsouthwalton.org/Walton-county-tdc. This site breaks the pennies down into additional components, some of which are not consistent with the use as adopted per ordinance or the category of expenditure.



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A portion of the funds from the 3rd penny are used for beach restoration and erosion control. Based on the ordinances as adopted the first two pennies include these categories. The third penny only lists re-nourishment and maintenance and is silent on the two items mentioned above. In addition, a portion of the fourth penny is for new product development. The TDC has been funding certain programs including lifeguards, code enforcement, Bayou Arts Center and artist of the year from this area for an extended period of time. In the opinion of Internal Audit, after the initial funding and no more than 24 months, the program is no longer new product development and should be funded from a different area and evidenced as such in the tourist development plan. Finally, the ½ cent is for marketing of Southwest airlines. This has been expanded to promotion of emerging markets since the airline no longer participates in TDC funding.

When the Board adopted the above ordinances, the tax payers of Walton County were cognizant of the uses of the tourist tax revenue. To be open and transparent, the tourist plan should include a list of expenditures by the pennies as adopted by ordinance. The electorate anticipates their tax revenue will be expended as it was presented to them.

Internal Audit Recommends the TDC develop a new tourist development plan that includes the ½ (.05) penny that was enacted to attract a low cost air carrier. In addition, the plan should list the anticipated expenditures by special project or use as required by the statute rather than by general use. These expenditures should be categorized by the penny that they will be funded from similar to those expressed on the TDC website.

Management's Response:

6. Management acknowledges that the TDC has not had a valid Tourist Development Plan as required by the statute for over three years.

Corrective action: Management is drafting and will recommend a Tourist Development Plan for BCC approval at the December 10, 2013 meeting.

7. **The TDC Split an Expenditure Which Appears to Violate Policy.**

The TDC purchased 20,000 wine glasses for promotional give away and resale in the gift shop totaling \$31,511.52; however the purchase was split between two purchase orders, which appear to circumvent purchasing



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policy. The Director of the TDC is allowed to approve purchases up to \$25,000. By splitting the purchase the director was allowed to approve this purchase rather than submit to the Board, which is required for purchases over \$25,000. The two purchase orders were for 10,000 wine glasses each. The purchase orders were dated the same day and the vendor's two invoice dates were the same day. This appears to be an attempt to avoid the purchase limit of the TDC director.

The TDC indicated that the necessity for the split purchase orders might have been a storage issue; however, the vendor invoice indicated that the purchases were shipped on 10/18/2011 and 10/19/2011. Internal Audit did not find any indication of additional purchases of this nature in the sample of expenditures examined; however, the appearance of impropriety can be as damaging to taxpayer confidence as the act itself. Monitoring of expenditures could help reduce the risk of purchasing policy violations.

Internal Audit Recommends the TDC and the council closely monitor expenditures to ensure they do not violate purchasing policies. In the event a situation occurs that requires a purchase to be split, the TDC should carefully document the necessity.

Management's Response:

7. Management acknowledges that county policy was violated when an expenditure was split to purchase wine glasses but believes this was a single isolated incident as stated in the Comptroller's audit.

Corrective action: Management will continue to monitor all expenditures to ensure they comply with county policies.

Attachment A

Management Reply to the Audit Findings by the County Comptroller

1.A. Management acknowledges, as it did after the Carr, Riggs and Ingram review, that the TDC did not retain adequate documentation with respect to the \$121,000 in gift cards and cannot provide any documentation for \$10,750 in gift cards.

1.B. Management acknowledges that proper management practices were not followed with the gas card program. This includes both cards and checks not being properly handled by the TDC.

Corrective action: Management will recommend that the BCC authorize the hiring of a Director of Administration who has a background in accounting, finance or business to oversee future business operations. Management will put in place controls both on the handling and accountability of any future gift card programs.

2. Management disagrees with the findings that questionable funding was provided for facilities and services. The TDC believes that there exists an honest disagreement in the interpretation of the statute governing TDC operations. The Comptroller cites Florida Statute 125.0104 (5)(a)1 that limits the TDC to expending funds for venues in the special taxing district and 2 to those whose main purpose it to attract tourists.

The County has maintained that funding for the E.O. Wilson Biophilia Center was authorized under FS 125.0104 (5)(b) as the criteria – county with a population of less than 750,000; a nature center operated by a not-for-profit organization – were met. The question of whether or not funds authorized by this section can be spent outside the special taxing district is a legal question outside the expertise of management. It should be noted that the TDC legal counsel has opined that the expenditure was permitted under the statute. Absent a contradictory legal opinion management must respectfully disagree with the Comptroller's finding.

3. Management acknowledges poor procedures and processes existed for tracking maintenance of its vehicle fleet especially with respect to warranty services.

Corrective action: Management has instituted controls to ensure all necessary maintenance is tracked by each vehicle and that before any work is done the Beach Maintenance Manager personally ensures that the work is not covered by a warranty.

4. Management agrees with the facts as stated in the Comptroller's report but takes exception to the findings.

A ceremonial check presentation was scheduled in Tallahassee at which the TDC executive director signed the MOU in question. The County had not authorized anyone to accept funds of this nature on its behalf so whether it had been a county commissioner, the county administrator or the TDC executive director this would have been a violation. There is no evidence that any funds were expended prior to the county passing Resolution 2010-64, which appears to have been passed at the first meeting of the county commission after the signing of the MOU. Had such funds been expended then the Comptroller's findings would carry more validity.

Attachment A

5. Management acknowledges poor procedures, processes and financial controls existed in the Visitor's Center.

Corrective action: Proper financial controls have been put in place. It is management's intent to eventually put the Visitor's Center under the Director of Administration to provide even more financial oversight.

6. Management acknowledges that the TDC has not had a valid Tourist Development Plan as required by the statute for over three years.

Corrective action: Management is drafting and will recommend a Tourist Development Plan for BCC approval at the December 10, 2013 meeting.

7. Management acknowledges that county policy was violated when an expenditure was split to purchase wine glasses but believes this was a single isolated incident as stated in the Comptroller's audit.

Corrective action: Management will continue to monitor all expenditures to ensure they comply with county policies.