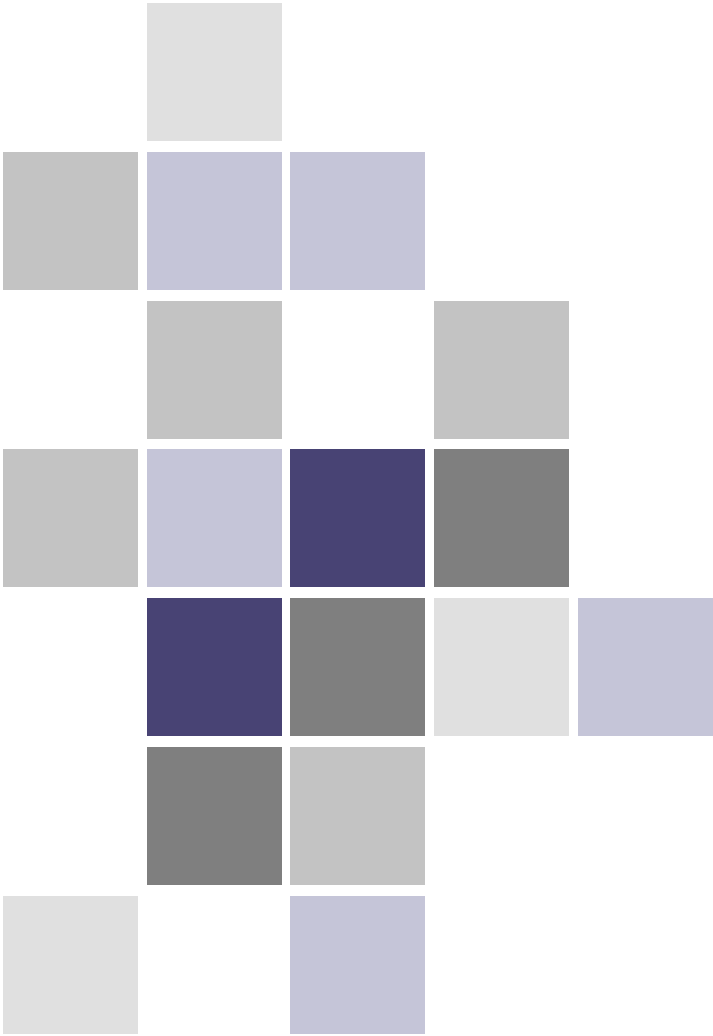




PERFORMANCE AUDIT OF OKALOOSA COUNTY

Final Report

September 4, 2018



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CHAPTER I. INTRODUCTION

Okaloosa County (County) became the 52nd Florida county on September 7, 1915, under the Constitution and laws of the State of Florida. The purpose of Okaloosa County Government is to be responsive to citizens in providing an appropriate level of accessible services in a cost-effective basis. Critical County values include: continual improvement of infrastructure; health, safety, and well-being of the citizens; preservation of natural resources; responsible economic development; leadership; and stewardship.

The Board of County Commissioners (BCC) is the chief legislative body for the County, and its general duties and responsibilities are outlined in Chapter 125, *Florida Statutes*. The BCC is composed of five County Commissioners elected by voters. The BCC approves the County budget, adopts local ordinances and resolutions, and establishes high-level policies that govern the County and ensure the health, safety, and welfare of the citizens. The BCC is also responsible for hiring a County Administrator to oversee the day-to-day operations of the County in line with BCC policy. The County Administrator sets administrative policy associated with the day-to-day operations. The BCC prepares an annual budget pursuant to Chapters 129 and 200 of *Florida Statutes* and conducts budget workshops during July of each year to review the recommended budget. The BCC's tentative budget is released prior to September, in accordance with Florida Statutes, after which budget hearings are advertised and held to ensure transparency and public input.

The County's economic base is concentrated in the defense industry, tourism, agriculture, fishing, ranching, and forestry, with a growing services economy and an emerging technology sector. According to the U.S. Census Bureau, the County has a total area of 1,082 square miles, of which 930 square miles are land and 152 square miles (about 14.0%) are water. The County is home to Fort Walton Beach and three United States Air Force bases (Duke Field in the north and Eglin AFB and Hurlburt Field are in the south). The County has a population of 199,915 in 2018 and is the 25th most populated county in the state. The County provides its citizens with a wide range of services that include law enforcement, airport services, courts, public health, library, public works, tourism development, veteran services, and water/sewer service.

Pursuant to the requirements of Ch. 2018-118, *Laws of Florida*, the Office of Program Policy Analysis and Government Accountability has contracted with MGT Consulting Group to conduct a performance audit of the programs associated with the surtax approved by Resolution adopted by the Okaloosa County Board of County Commissioners on December 5, 2017 and subsequently revised June 5, 2018. In accordance with this resolution, this performance audit of the County focused on program areas related to critical needs including essential law enforcement/public safety facilities and vital equipment; the reduction of traffic congestion; the construction and repairing of roads and bridges; flood control and water quality improvements; the construction of other public facility improvements; and payment of debt.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require planning and performance of the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Audit activities included interviews with key personnel, review of relevant information (i.e., policies and procedures, original invoices, BOCC Board meeting minutes, and cost analyses) and site visits. MGT believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the defined audit objectives.

Okaloosa County management has made significant strides in strengthening internal controls during the past few years, and their efforts were evident during the audit process. Most notable among positive steps in this respect is the reorganization approved in March 2018, which added a Deputy-County Administrator for Operations and an Office of Management and Budget. These functions further strengthen the existing management control over all aspects of County Operations. In further support of the above efforts, the Board adopted Resolution 17-192, establishing the Okaloosa County Infrastructure Surtax Advisory Committee whose purpose includes review and recommendation of projects, prioritizing of projects, and review of expenditures of the Surtax proceeds. The committee will document its actions with an annual report to the Board that will advise the status and compliance with the intent of the applicable intent of the state laws, rules and regulations.

CHAPTER 2. REPORT SUMMARY

Pursuant to the scope identified in the Request for Quote, the audit focused on the program areas related to critical needs including essential law enforcement/public safety facilities and vital equipment; the reduction of traffic congestion; the construction and repairing of roads and bridges; flood control and water quality improvements; the construction of other public facility improvements; and payment of debt. The scope of items under examination of the audit and the organization of the County led to the division of the findings of this report under two general areas – (1) capital projects under the purview of the Public Works department and (2) aspects of debt service.

To assess the respective levels of performance under these domains, the audit team evaluated the following six key aspects of the program areas:

1. Economy, efficiency, and effectiveness
2. Organizational structure or design
3. Methods of providing services and products
4. Goals, objectives and performance measures
5. Adequacy of public documents and reports
6. Process for ensuring compliance with policies, rules, and laws

For each key aspect, MGT performed procedures to assess program performance. Audit procedures disclosed several key areas in which the Public Works Department and Debt Service function performance met criteria for satisfactory performance within the scope of information examined (positive aspects of operations observed in all six findings areas – 1, 2, 3, 4, 5, and 6), while adverse findings or needs for improvements were also identified in several of these areas (including findings no. 1, 2, 3 and 4).

LIST OF FINDINGS

FINDING 1: ECONOMY, EFFICIENCY, AND EFFECTIVENESS

Management has taken reasonable and timely actions to address any deficiencies in program performance and/or cost identified in internal and external audits. However, for 2 of the 12 projects tested, there was insufficient documentation to show that the project was completed in compliance with the contract documents. Additionally, the Public Works department does not have a defined procedure for determining when a project should be re-bid rather than significantly changing the project scope and cost through the change order process.

FINDING 2: STRUCTURE OR DESIGN

The Public Works Department has clearly defined units, minimizes overlapping functions and excessive administrative layers, and has lines of authority that minimize administrative cost. Additionally, the process to assess current staffing levels appear reasonable given the nature of the services provided and program workload. The program's current staffing levels appear reasonable given the nature of the services provided and program workload based on a thorough budgeting and staff planning process; however, the County could undertake further efforts to measure workload and productivity to validate staffing levels against volume of need. Additionally, staffing on projects is not kept in a consistent, updated system for project management use and saved for future review.

FINDING 3: METHODS OF PROVIDING SERVICES AND PRODUCTS

The Public Works Department effectively delivers services through a mix of in-house and contracted services within the scope of project testing and engages in informal evaluation of alternative opportunities for service provision. However, the Department does not have a formal process for routinely evaluating the effectiveness of alternative methods of providing services.

FINDING 4: GOALS, OBJECTIVES AND PERFORMANCE MEASURES

The Public Works Department goals and objectives are clearly stated and are consistent with the County's strategic plan. Additionally, the performance measures used by management to evaluate program performance are sufficient to assess program progress toward meeting its goals and objectives. However, the Debt Service function does not monitor the work or measure the performance of the external financial consultant to verify quality of work.

FINDING 5: ADEQUACY OF PUBLIC DOCUMENTS AND REPORTS

The Public Works Department has processes in place to ensure the accuracy and completeness of any program performance and cost information provided to the public. Additionally, the public has access to information that is useful, timely, readily available and easy to locate.

FINDING 6: PROCESS FOR ENSURING COMPLIANCE WITH POLICIES, RULES, AND LAWS

The Public Works Department has a process in-place to assess its compliance with applicable federal, state, and local laws, rules, and regulations; contracts; grant agreements; and local policies. Additionally, management has taken reasonable and timely actions to assess if planned uses of the surtax comply with applicable state laws, rules, and regulations.

CHAPTER 3. OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

Findings of the performance audit are presented for each of the six research tasks associated with the audit bridging all relevant aspects of County operations relevant to the scope of the audit.

- ◆ Aspects of performance that **satisfied audit criteria** for the scope of information reviewed are identified by area of review and accompanied by a brief description of the current situation.
- ◆ Alternately, aspects of the organization that **did not satisfy audit criteria or where processes could be improved** also include the same characterization of the areas of review and summary of current circumstances, but also include further detail and MGT's associated recommendation for remediation of these adverse conditions.

To assess the performance of these programs, MGT reviewed extensive reports and documentation regarding the organization, supplemented and informed by interviews with key staff including:

- ◆ County Administrator
- ◆ Director, Office of Management and Budget
- ◆ Director, Public Works
- ◆ County Engineer
- ◆ Director, Human Resources
- ◆ Manager, Purchasing
- ◆ Road Manager

FINDING 1: ECONOMY, EFFICIENCY, AND EFFECTIVENESS

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CURRENT SITUATION

The focus of the Public Works Department (Department) is to provide infrastructure and quality of life related services to residents and visitors of the County. The Department accomplishes this through five divisions: Engineering, Roads, and Stormwater, Facility & Parks, and Fleet Operations, which are described below.

- ♦ **Engineering** – to ensure that all capital projects that are designed and constructed by the County meet acceptable industry standards utilizing the most cost-effective methods without jeopardizing the safety of the user and to ensure that all roads, drainage systems, easements, and other projects that are accepted from developers into the county maintenance system are constructed to a standard as set forth in the Land Development Code of Okaloosa County. In addition, Traffic Operations, Mosquito Control, and Waste Resources are sections within this division. Traffic Operations ensures the continuous operation of traffic control devices including signalized intersections, emergency signals, and school zone beacons.
- ♦ **Roads** – to ensure a safer transportation system in the unincorporated areas of Okaloosa County, including the assessment, construction and maintenance of stormwater facilities throughout the County.
- ♦ **Stormwater** – operation and maintenance of all stormwater systems that are within the jurisdiction of the County.
- ♦ **Facility & Parks** – maintenance of all County-owned buildings and property to include custodial, grounds, mechanical, and parks.
- ♦ **Fleet Operations** – provides fleet management, fueling, and repair and maintenance for all County-owned and -operated equipment and vehicles.

The Department obtained accreditation by the American Public Works Association in 2011 and successfully renewed this accreditation in 2015. Accreditation by this body, per the organization, is “...a means of formally verifying and recognizing public works agencies for compliance with the recommended practices set forth in the Public Works Management Practices Manual. It is a voluntary, self-motivated approach to objectively evaluate, verify and recognize compliance with the recommended management practices.”

The Department actively participates in the development of the County’s Capital Improvement Program (CIP). The CIP is a five-year plan that is updated annually. The purpose of the CIP is to help forecast large infrastructure projects throughout the County. During testing, MGT determined that the projects that were selected provide a clear representation of the planning that takes place. One benefit of the CIP planning process is that it is updated and approved by the Board of County Commissioners (BCC) each year. The CIP document is readily available for review by the public. Both the most recent version as well as historic versions are easily

accessible. Requiring these projects to go through a rigorous planning process helps to ensure the confidence of each project by the public agency and its constituents.

The planning and budgeting for smaller regular maintenance infrastructure projects is conducted annually. The planning of these projects is strategically essential to allow for maximum capacity of infrastructure yet diligently issue regular maintenance to ensure its effectiveness. The Department demonstrates a unified effort to this process since its specific teams are issued responsibilities per their skill set to ensure proper maintenance of the variety of responsibilities held by the Department. The teams accommodate these varied tasks through multiple processes including:

- ◆ owner direct purchasing,
- ◆ coordinating with a variety of agencies including the federal government, the state department of transportation,
- ◆ being involved with the Tri County Partnership Initiative, and
- ◆ collaboration with the local Air Force Base.

PROJECT SAMPLING & TEST RESULTS

As part of audit testing, MGT selected 12 capital projects that were started, ongoing, or completed by the Public Works Department during the period June 1, 2015, through May 31, 2018, for testing, see **Table 1 - Summary of Project Sample** below. The projects were judgmentally selected to obtain a representative sample which included all types of projects completed by the Public Works Department to include roads, bridges, building construction, and water quality projects. The sample of the 12 projects were selected from a total population of 82 projects, which resulted in testing approximately 75% of total population cost.

TABLE 1 – SUMMARY OF PROJECT SAMPLE

| PROJECT | ACTUAL COST TO DATE | PROJECT STATUS |
|---------------------------------------|---------------------|----------------|
| Courthouse Remodel/Rebuild | \$21,804,780.75 | In-Progress |
| Shalimar Annex-Phase II | \$10,855,757.97 | Complete |
| FDOT PJ Adams Design & ROW | \$2,964,532.47 | In-Progress |
| Sheriff-Shalimar Bldg OCAB Financing | \$1,338,017.83 | Complete |
| Foxwood Phase III Drainage & Retrofit | \$328,638.64 | Complete |
| Okaloosa Bridge Material | \$29,055.25 | In-Progress |
| FDEP Gap Creek Retrofit | \$244,231.17 | Complete |
| Notification System | \$55,657.00 | Complete |
| Lenwood Jackson Road Design | \$41,682.50 | Complete |
| Jail Parking Lot | \$71,847.99 | Complete |
| Matthew Blvd Widening | \$60,864.35 | In-Progress |
| EFI Downs Road | \$37,591.00 | Complete |

For these 12 projects, MGT interviewed County personnel and reviewed the full life cycle of project documentation (including planning documents, approvals, invoices, monitoring reports, and change orders) stored within the County's records to gain an understanding of the performance and cost of the project. Audit procedures disclosed that:

- ◆ For all 12 projects tested, management periodically evaluated project performance and cost, using information that is adequate to assess project performance and cost.
- ◆ The projects were procured using the competitive bidding process, which was tested as part of the performance audit, and confirmed that the contracts were awarded to the lowest bidder. In conjunction with transparency of the documentation (including records of bid advertisements, original bids submitted by vendors, bid tabulations and scoring sheets), participation by multiple bidders, and unbiased nature of this bid process, there is indication that the outcome represents fair market value.
- ◆ The Okaloosa County Courthouse was one of the twelve sample projects selected for testing. MGT found that the project cost and scope increased significantly via a series of change orders. As described above, the competitive bid process is a tool to assist agencies with determining an equitable, transparent plan and budget for the intended project and defined scope. This project, as demonstrated below, exhibits a substantive change to the project via the use of change orders. For legitimate reasons, the project required additional funds and a change from the original scope to support a safe environment, but there is no audit trail of a rationale definitively supporting the eluding of time required to put the project back out for bid. A significant change order (one that changes the nature of the project) disconnects the project from the original competitive bid and verifiable current market value, and leaves an appearance of favoritism towards the associated vendor. (see **Table 2 – Okaloosa Courthouse Project Changes**).

TABLE 2 – OKALOOSA COURTHOUSE PROJECT CHANGES

| PROJECT | ORIGINAL CONTRACTED AMOUNT | BUDGETED AMOUNT UPON COMPLETION OF INITIAL DESIGN PHASE | BUDGETED AMOUNT AFTER ALL CHANGE ORDERS | PERCENTAGE INCREASE |
|----------------------------|----------------------------|---|---|---------------------|
| Courthouse Remodel/Rebuild | \$1,296,000.00 | \$8,500,000 | \$23,653,890.00 | +178% |

For this project, MGT interviewed County personnel and reviewed supporting documentation to gain an understanding of the original project scope, reason(s) for the change orders, approvals, and final project scope. The circumstances that led to the significant budget changes occurred within the context of a Design-Build process which allows organic evolution of a project, overlaid

against a series of circumstances where requirements of the engagement evolved dramatically, as described below.

COURTHOUSE REMODEL/REBUILD:

- ♦ The Board approved budget was \$8,500,000 and the initial estimate/budget for design/build fees was \$1,296,000, which covered the design fees of what was expected to represent an \$8,000,000 renovation project thought to meet the building needs for 10 to 20 years. The procurement and contract documents referenced “Design Build Services to Renovate and Improve Security and Access to the Existing Crestview Courthouse.”
- ♦ A change in the design phase scope changed the project to eventually accommodate \$17,000,000 in construction. As per March 3, 2015, Board meeting minutes (Minute Book 72, page 191), the change in price was due to a need for “twice the space” within a twenty-year timeframe, based on projected caseload as per population projections and other factors influencing space needs. This caused an increase in fees as noted in change order one by an amount of \$1,170,340 (new total \$2,466,340), which accommodated design work for a 25 to 30-year project, and revised estimations of total project costs to \$17,000,000. The project remained a renovation of the existing facility plus construction of a three-story on-grade addition to meet these increased demands.
- ♦ Change order two extended the contract time by 182 days.
- ♦ Change order three changed the total fee from \$2,466,340 to a maximum guaranteed price of \$23,654,196 (all design and construction) and extended the contract time by 1,520 days. This amount accommodated a change from a renovation plus addition to the razing of the current facility and construction of a new courthouse building.
 - The reason for the significant change was that the needs of the project had changed significantly due to environmental concerns discovered during the initial or design phase of the project (discovery of mold and asbestos through air quality testing).
 - The discovery required relocation of County functions and building tenants within the facility to temporary accommodations, which added an additional strain on operations and impetus to complete the project in a timely manner.
 - Per October 6, 2015, Board meeting minutes (Minute Book 73, pages 230 through 241), upon discovery of the environmental issues, the Design-Build contractor presented two alternatives for addressing the issues that had been encountered:
 - Option A, an estimated \$17.5 million project to abate environmental issues, renovate the existing facility, and build an addition, totaling 77,000 square feet.
 - Option B, an estimated \$21.8 million project to completely demolish the existing facility and build a new 68,000 square foot “more efficient and more secure” facility.

Option B was selected by the Board in a 4-1 vote by the Board, for reasons expressed in the minutes to include “more efficient floor plan,” to “replace a problematic building,” and provision of a “good environment for people to work in” as well as aesthetic concerns that the building resemble the 1918 courthouse.

- ♦ Note that the change orders obtained had the appropriate approvals, including Board approval. There were additional (minor) change orders that adjusted the schedule and final price to help derive the final amount as indicated in the preceding table (**Table 2**).

MGT did not find any evidence that the County violated any policies in the County purchasing manual. However, when a project change order increases the value or scope of a project by a significant amount, and the project is not rebid, it may give the appearance that the program is giving preferential treatment to the contractor that the project was awarded to, and the County may be denying itself the potential cost-savings of additional vendors attracted to bid on a larger scale project than apparent from the original solicitation. In addition, the competitive bidding process is a control to ensure fair market value and the best qualified vendor for services.

At either the March 2015 discovery of substantially expanded functional needs to support caseload, or the October 2015 discovery of environmental issues, the magnitude of changes in expectations for scale and scope, respectively, could have initiated the County to rebid the effort. In response to audit inquiries, County personnel indicated that:

- ♦ Change orders are initiated on a project when a need arises to change the scope of work, duration, or cost of a project. For projects greater than \$100,000, all change orders are required to be approved by the Board of County Commissioners.
- ♦ To issue change orders rather than to undergo the re-bidding process facilitated the expeditious and cost-effective completion of the projects. The County’s intention was to be efficient by using the Design-Build process where the design and construction elements are coordinated together, or in parallel, during the delivery of the project.

Separate from (in addition to) the above process concern, the program currently does not have a procedure in place for documenting the quality of all projects performed by contractors and work crews. For two out of the 12 projects selected for testing, there was insufficient documentation to show that management monitored the project to ensure that the project was completed in compliance with the contract documents.

In response to audit inquiries, County personnel indicated that they believe that the current monitoring and reporting methods are sufficient to document project performance and quality. However, the absence of documentation showing that the project was verified and documented as complete and compliant by a qualified individual increases the risk that the quality of the project is inadequate. This absence of documentation appears to be due to a lack of a formal policy that requires regular monitoring of project performance via a defined set of measures or mechanisms.

PRIOR AUDIT FINDINGS

Management has taken reasonable and timely actions to address any deficiencies in program performance and/or cost identified in internal and external audits. Per review of the September 30, 2017 financial statements, the following findings were noted:

- ♦ 2017-01 Internal Control over Financial Reporting – the finding was related to changes in structure of the organization and lack of updated policies. Based on the procedures performed within the scope of the performance audit the Purchasing Policy (revised 4/2/2018) was reviewed and significant controls tested. The procedures were implemented, and the policy updated to reflect the changes and controls were in place evidencing timely action to this finding.
- ♦ 2017-02 Public Works and Facilities Maintenance – Inadequate Accounting of Inventory - the County is in the process of resolving this issue and has implemented inventory counts (first count scheduled for September 2018), purchased an inventory software package, and hired additional staff to address segregation of duty issues.

RECOMMENDATION:

MGT recommends that:

- ♦ Management implements policies and procedures on managing project changes of a significant magnitude or that change the nature of the project. The procedures should establish a clearly defined proportion and/or dollar threshold where a project would be required to be re-bid. The procedures should also define what characteristics would define a change in the basic nature of a project (e.g., renovation to new construction), and projects that incur changes that meet these characteristics would be required to be re-bid. A traditional design-bid-build process might be a more effective control for projects where there is potential for substantial changes to scope of the project.
- ♦ A standard for performance monitoring should exist for capital projects. Additionally, upon completion, all projects should be evaluated by a qualified individual to ensure that the contractor or work crew completed the work to a sufficient standard of quality. The results of this evaluation should be documented and verified before final payment to the contractor and made available to the public.

FINDING 2: STRUCTURE OR DESIGN

The Public Works Department has clearly defined units, minimizes overlapping functions and excessive administrative layers, and has lines of authority that minimize administrative cost. Additionally, the process to assess current staffing levels appear reasonable given the nature of the services provided and program workload. The program’s current staffing levels appear reasonable given the nature of the services provided and program workload based on a

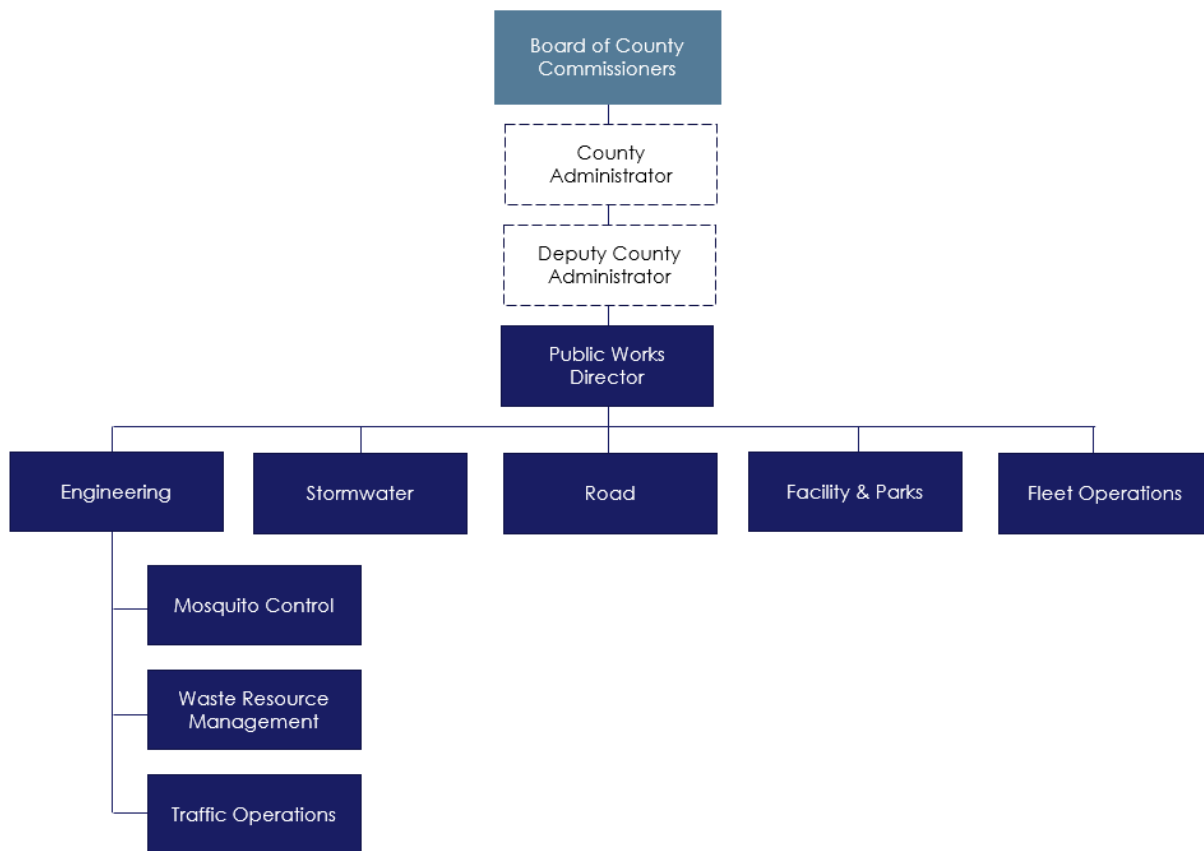
thorough budgeting and staff planning process; however, the County could undertake further efforts to measure workload and productivity to validate staffing levels against volume of need. Additionally, staffing on projects is not kept in a consistent, updated system for project management use and saved for future review.

CURRENT SITUATION

The Public Works Department is led by the Director of Public Works who reports directly to the Deputy County Administrator of Operations (see *Exhibit 1 – Public Works Organizational Chart*). The Department utilizes a combination of in-house staff and contracted vendors to perform its functions, including:

- ◆ design and construction of capital projects,
- ◆ operation of traffic control devices,
- ◆ construction and maintenance of stormwater facilities throughout the County,
- ◆ and other infrastructure related functions.

EXHIBIT 1 – PUBLIC WORKS ORGANIZATIONAL CHART



MGT's audit procedures included:

- ◆ Observations of a budget process that reviews workload and Full-Time Equivalent (FTE) levels, which is brought forward from department leaders and approved by the Board.
- ◆ Reviews of sample job / position descriptions to verify minimal duplication of effort.
- ◆ The review of organizational charts relative to peer counties (specifically, Santa Rosa County, Bay County, and Walton County, as identified by County representatives during interviews) to confirm that other peers have similar departments and management levels.
- ◆ Interviews with HR management to verify fidelity to established processes.

Audit procedures disclosed that although the County does not go through workload analysis or specific individual utilization reviews, they consider staffing levels throughout the year, which are summarized and reviewed by management, the public, and the Board annually. There are two primary ways that staffing is reviewed throughout the year: during the budgeting process and outside of the budgeting process. A description of the processes is provided below.

- ◆ During the budget process, and in January each year, the Human Resources Department requests information from each department related to their staffing needs for the next fiscal year. The letter asks departments to submit all staffing requests to include position additions, deletions, and reclassifications. In addition to the staffing requests, departments are required to provide justification for the addition, deletion and/or reclassification of positions. After the deadline, the Human Resources Department reviews the information and follows up with the department to obtain additional documentation as needed. In February and March, the requests from the department are entered on a staffing matrix, which the Human Resources Director presents to the County Administrator and Deputy County Administrators for consideration and approval. The County Administrator provides direction on the requests that are approved and not approved. Departments are then notified if their positions were or were not approved during the initial meeting with the County Administrator or if additional information is required. New positions that do not currently exist and reclassification requests are sent to a third-party consultant to assign a pay grade and Fair Labor Standards Act (FLSA) status. In April and May, the information received back from the third-party consultant is entered into the budget system to be considered by the County Administrator during his budget reviews. In May and June, the County Administrator meets with each department Director to review his or her proposed budget. This review includes requested additions, deletions, and reclassifications of positions, operating expenses and revenues. In July and August, each department Director presents his or her proposed budget to the Board of County Commissioners. The budget process is then concluded in September with two public hearings and the budget, with the position additions, deletions, and reclassifications, is approved.

- ◆ Outside the budget process, as positions become vacant due to turnover, the Human Resources Department asks the department to review their staffing needs. If the department determines no changes are needed, the Human Resources Department works with the requesting department to recruit and refill the position. If the department determines there is no longer a need for the position, they can request the position be reclassified to a different position. Reclassification requests are sent through the department Director to the Human Resources Department. The requests include a job description of the new position, a completed job description questionnaire, and justification for the requested change. Using the job description and job description questionnaire, the Human Resources Department assigns a pay grade and FLSA status. The Human Resources Director provides the new and old job title, pay grade, and FLSA status as well as the reclassification justification to the County Administrator for review and approval. In accordance with the *Human Resources Policy Manual, Chapter V – Classification Plan, Section F – Position Control*, “Changes to position allocations that do not result in an increase in the current approved budget of a department may be authorized by the County Administrator.” Once the County Administrator has provided approval for the change, the Human Resources Department updates the class plan, budgeted positions, and organizational chart(s), and works with the department to recruit and fill the newly created position. If a department needs to reduce their number of budgeted positions due to a lack of work, a reorganization, or lack of funds, the County’s Reduction in Force (Layoff) Policy is used.

Based on the result of the audit procedures, MGT concluded that the process to assess current staffing levels appear reasonable given the nature of the services provided, and against program measurements. However, the County could undertake further efforts to measure workload and productivity to validate staffing levels against volume of work, to demonstrate that staffing levels are reasonable relative to needs. **Exhibits 2A through 2E – Example Organization and Staffing Measures Against Performance** provide a series of examples of the processes and reporting associated with management of the organization’s human capital.

EXHIBIT 2A – EXAMPLE ORGANIZATION AND STAFFING MEASUREMENTS AGAINST PERFORMANCE – NARRATIVE SUMMARY OF STAFFING CHANGES

Positions

The budget process contemplated several new positions to rebuild organizational capacity and support the growing needs of the County. A list of 53 positions requested by departments has been reduced to 27 new positions offered in this budget due to the available funds. Of the new positions four are funded by the General Fund at a cost of approximately \$200,000. Highlights of the 27 new positions are outlined below.

- This budget includes the funding of \$45,221 for one of two Pretrial Officers requested to assist with the growing inmate population. Pretrial Services facilitates the release of persons arrested, minimizes failures to appear in court and the potential danger to the community. Pretrial Services assists in managing the jail population by reducing unnecessary incarcerations and maximizing the rate of release.
- EMS will add 16 positions to complete the 12 hour shift conversion that was partially rolled out in May. The complement of positions adds five Branch Commanders, five Paramedics, five EMTs and an EMS Planning & Training Coordinator. Costs of approximately \$900,000 are offset by a decrease in overtime and a projected increase in billing collections.
- To support the County's growth and respond to the building community's request for improved service in the Inspections division, which was downsized during the economic downturn, a Construction Inspector position has been added. To partially offset the cost of \$53,748, a fee increase was enacted this July.
- The Tentative Budget incorporates a new Grant Accountant position to aid in the FY2018 transition of the Clerk's grant duties to the Board of County Commissioners. This position will also be supporting the RESTORE Act & Triumph funds that will be overseen by the County.

EXHIBIT 2B – EXAMPLE ORGANIZATION AND STAFFING MEASUREMENTS AGAINST PERFORMANCE – FTE REPORT BY FUNCTION

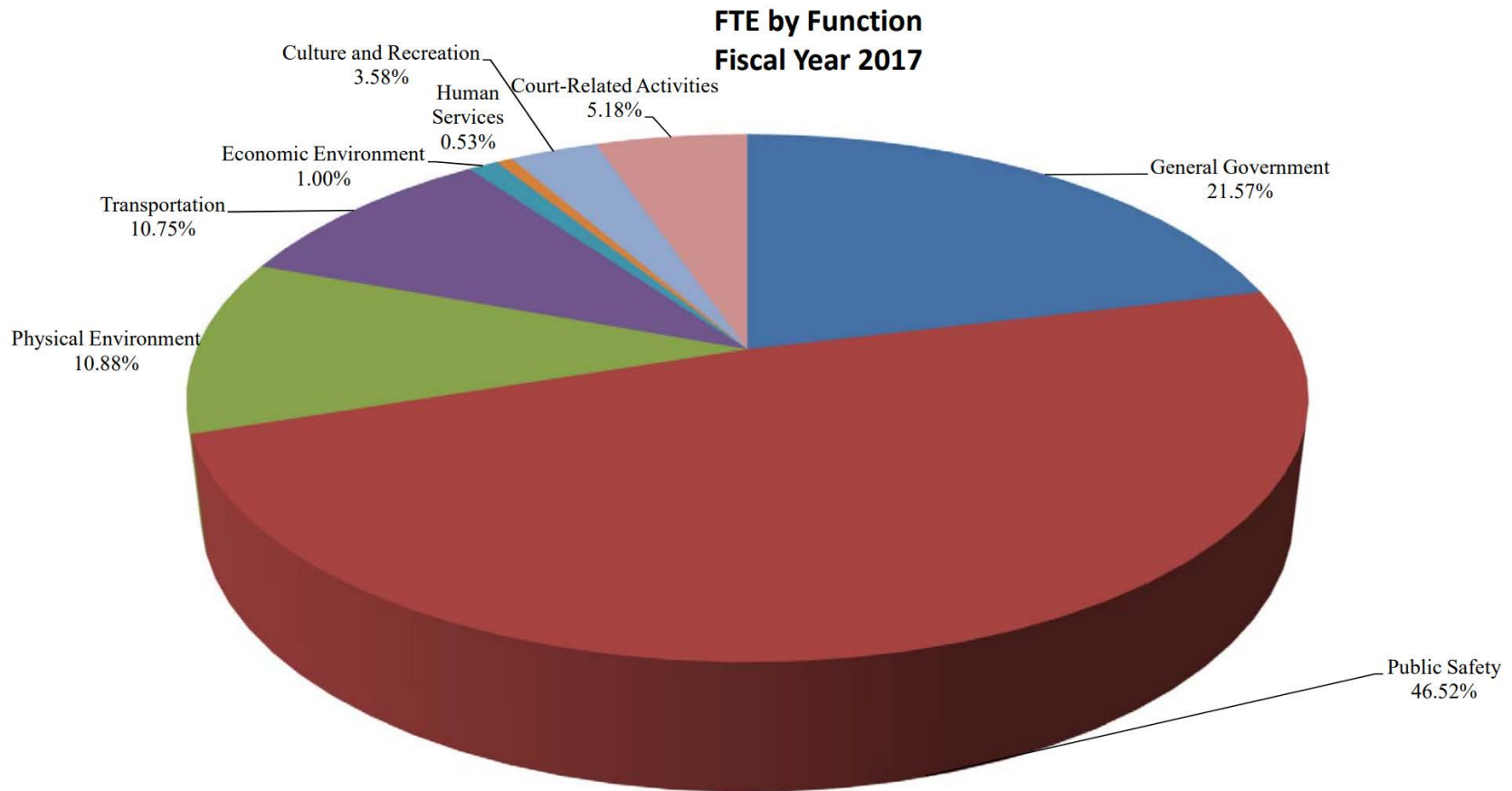


EXHIBIT 2C – EXAMPLE ORGANIZATION AND STAFFING MEASUREMENTS AGAINST PERFORMANCE – FTE TREND BY FUNCTION

FULL-TIME EQUIVALENT GOVERNMENT EMPLOYEES BY FUNCTION - LAST TEN YEARS

| FUNCTION | FULL-TIME EQUIVALENT EMPLOYEES AS OF OCTOBER 1 | | | | | | | | | |
|--------------------------|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| GENERAL GOVERNMENT | 299 | 308 | 316 | 313 | 303 | 309 | 314 | 315 | 325 | 308 |
| PUBLIC SAFETY | 661 | 641 | 635 | 657 | 629 | 649 | 649 | 669 | 701 | 706 |
| PHYSICAL ENVIRONMENT | 169 | 157 | 161 | 156 | 147 | 144 | 146 | 151 | 164 | 155 |
| TRANSPORTATION | 175 | 168 | 166 | 154 | 146 | 156 | 166 | 167 | 162 | 138 |
| ECONOMIC ENVIRONMENT | 14 | 18 | 17 | 18 | 14 | 14 | 14 | 14 | 15 | 15 |
| HUMAN SERVICES | 13 | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| CULTURE AND RECREATION | 43 | 42 | 43 | 42 | 42 | 42 | 47 | 53 | 54 | 44 |
| COURT-RELATED ACTIVITIES | 109 | 78 | 82 | 82 | 86 | 86 | 85 | 89 | 78 | 76 |
| TOTAL | 1,483 | 1,420 | 1,427 | 1,430 | 1,375 | 1,408 | 1,429 | 1,465 | 1,507 | 1,450 |

SOURCE: BUDGET OFFICE

EXHIBIT 2D – EXAMPLE ORGANIZATION AND STAFFING MEASUREMENTS AGAINST PERFORMANCE – POSITIONS BY CATEGORY AND FUND

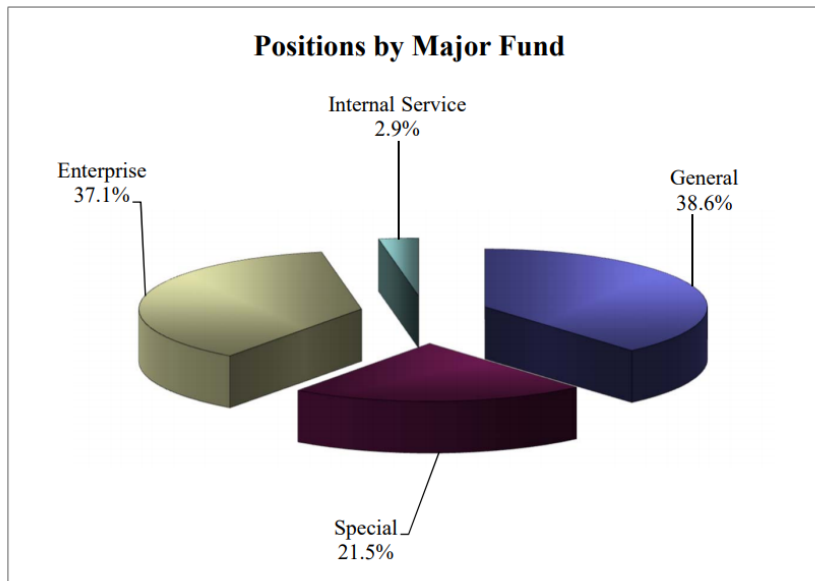
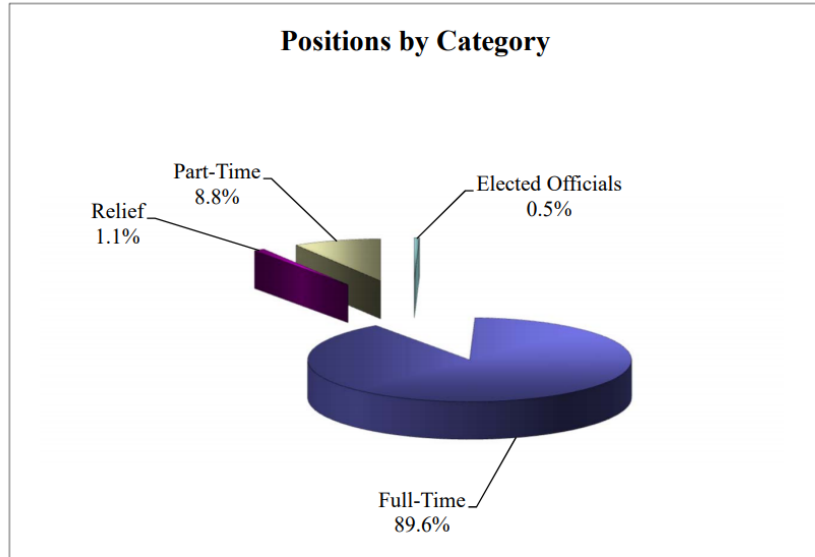


EXHIBIT 2E – EXAMPLE ORGANIZATION AND STAFFING MEASUREMENTS AGAINST PERFORMANCE – INPUT, OUTPUT, EFFICIENCY, AND EFFECTIVENESS MEASURES

| Performance Measures | | Actual FY2015 | Estimated FY2016 | Approved FY2017 |
|-----------------------------|--|--------------------------|-----------------------------|----------------------------|
| Input | FTEs | 4 | 4 | 5 |
| | Supervisor/Manager | 1 | 1 | 1 |
| | Officers | 3 | 3 | 3 |
| | Administrative Assistant | 0 | 0 | 1 |
| Output | Number of complaints of alleged code violations investigated | 2,759 | 2,900 | 3,000 |
| | Number of contractor licensing investigations (includes unlicensed contracting as well as contractor misconduct) | 347 | 425 | 500 |
| | Number of cases prosecuted to Code Enforcement Board or Court | 6 | 6 | 5 |
| | Number of cases presented to contractor licensing boards | 3 | 2 | 5 |
| | Number of community clean ups | 4 | 0 | 4 |
| | Number of lien/code violation public record requests | 1,223 | 1,700 | 1,750 |
| | Citations Issued | 13 | 15 | 15 |
| Efficiency | Number of cases per Code Enforcement Official | 690 | 725 | 750 |
| Effectiveness | Number of cases resolved without necessitating Board action | 2750 | 2892 | 2990 |
| | Restitution to victims | \$40,000 | \$8,000 | No Estimate |
| | Total fines and fees recovered | \$2,700 | \$6,500 | No Estimate |

HISTORICAL STAFFING SUMMARY:

| Category | FY2014 | FY2015 | FY2016 | FY2017 |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Full-time Management & Professional | 0 | 0 | 0 | 1 |
| Full-time Operations & Trades | 3 | 4 | 4 | 4 |
| Total | 3 | 4 | 4 | 5 |

EXPENDITURES:

| Category | Expenditures | | Budget | | FY16/FY17 +/- | Increase/ Decrease |
|--------------------|--------------------------|--------------------------|----------------------------|----------------------------|--------------------------|-------------------------------|
| | FY2014 Actual | FY2015 Actual | FY2016 Approved | FY2017 Approved | | |
| Personnel Services | \$105,217 | \$123,957 | \$149,209 | \$166,153 | \$16,944 | 11.4% |
| Operating Expenses | \$16,545 | \$24,906 | \$29,645 | \$28,869 | (\$776) | -2.6% |
| Capital Outlay | \$0 | \$0 | \$0 | \$25,000 | \$25,000 | - |
| Other Uses | \$0 | \$0 | \$26,271 | \$25,700 | (\$571) | -2.2% |
| Total | \$121,762 | \$148,863 | \$205,125 | \$245,722 | \$40,597 | 19.8% |

However, the review also disclosed that staffing on Public Works projects is not kept in a consistent, updated system for project management use and saved for future review. The County manages all project staffing via e-mail and a white board weekly, and the white board is erased weekly, so there can be no easy historical review of staffing levels or capacity relative to utilization. Costs are accounted for and Department management is updated and engaged on the progress and status of internal projects in meetings, but staff capacity and utilization is not tracked or managed in a transparent manner. There is no record of how many hours have been utilized over time on individual basis or for the suite of projects. Leadership works via e-mail and a white board to ensure staff are utilized, and circumstances such as heavy rain are addressed as encountered to ensure that staff are given other activities to maintain productivity. Examples of staff and projects managed are below:

1. One white board tracks the location of Bridge, Asphalt, and Stormwater crews as they work various projects, which could include, for example, maintenance on the over 70 bridges in the County. From time to time, management tracks work that is being done by maintenance staff if they pick up a project that qualifies as more than just typical maintenance, but not substantial enough to assign one of the aforementioned crews. The Bridge, Asphalt, and Stormwater Crews are comprised of approximately 30 people, as they occasional borrow from those crews as the need permits.
2. Another white board has a list of the current year Capital Improvement Program (CIP) projects (noted in Finding 1) that show project account number and work status (e.g., complete, ongoing, to-do level).
3. Another two boards track whether staff are out of the office.

In the policy document entitled “Final Design,” it is documented that “projects that are to proceed through to final design shall have a defined scope of work prior to beginning the design effort. When the task is assigned the budget and time requirements are a critical element to the success of the project. Updated schedules and construction estimates should be provided with each progress submittal review,” which ostensibly appears to conflict with the operating process.

In response to audit inquiries, County personnel indicated that purchasing a project management system has not been a top priority for the County due to the perceived adequacy of current processes. The team has relied on an informal system (i.e., via e-mail and a white board), and there have not been any large-scale failures. However, due to the informal management processes and lack of documentation, project managers and auditors cannot see documentation to measure staffing per project and create ways to improve staffing or document lessons learned.

RECOMMENDATION:

MGT recommends that the County incorporate further measures of workload or productivity to validate the staffing levels of the organization against need. These additional reference points

can place context around staffing levels and ratios to workload that would provide more transparency as to the efficiency of operations.

MGT also recommends considering implementing a project management solution that can assist in organization-wide staffing and utilization tracking and be a place to track all project-specific documentation so there are fewer manual processes and paper documentation strategies to support performance measurement. Effective implementation of a more sophisticated solution could save the organization money, ensure appropriate, trackable staffing, and make it easier for leaders to make data-driven management decisions. Resources like the Project Management Institute (PMI), offer additional best practices on project management and staffing.

FINDING 3: METHODS OF PROVIDING SERVICES AND PRODUCTS

The Public Works Department effectively delivers services through a mix of in-house and contracted services within the scope of project testing and engages in informal evaluation of alternative opportunities for service provision. However, the Department does not have a formal process for routinely evaluating the effectiveness of alternative methods of providing services.

CURRENT SITUATION

The Public Works Department currently uses several alternative methods of delivering services to realize cost savings. As an example, the Department employs its own bridge maintenance crew due to the volume of maintenance needs and presumed economies of scale. The Department also actively pursues direct purchasing whenever possible to achieve sales tax savings. As part of audit testing, MGT selected a sample of 12 capital projects for testing relevant to the use of the surtax, as described in **Finding 1: Economy, Efficiency, and Effectiveness**. These projects were either started, ongoing or completed between June 1, 2015 through May 31, 2018. The projects included a new County Courthouse, new multi-phase administration building, support office building, road design, water drainage retrofit, and in-house bridge project, new building construction, bridge design/implementation and road construction.

For these 12 projects, MGT interviewed Department personnel and reviewed supporting documentation stored within the Department's records to determine whether there was evidence that for services or activities performed in-house management considered alternative service delivery methods and for contracted/privatized services or activities management verified effectiveness and cost savings achieved. Audit procedures disclosed that:

- ◆ Although methods of providing services are often discussed among county administrators at regular Tri-County Partnership Initiative meetings, there is no formal, documented process for evaluating existing in-house services and activities to assess the feasibility of alternative methods of delivering services.

- ◆ There was no evidence that management evaluated contracted and/or privatized services to verify effectiveness and cost savings achieved for services conducted by internal staff.

In response to audit inquiries, County personnel indicated that they believe that the current informal evaluation system is sufficient to ensure program efficiency and effectiveness. The absence of a formal process for periodically evaluating in-house, contracted, and prioritized services increases the risk that cost-savings and optimized program efficiencies may be unrealized.

As it relates to debt service, in the process of incurring new debt, the Board of County Commissions (BCC) is presented financing options by an outside financial advisor. As part of the audit, MGT selected the bond series issued in 2016 to finance the courthouse (as referenced under Finding 1, Table 2 and related narrative) for testing. There were three bond issues that had balances within the scope of the performance audit between June 1, 2015 through May 31, 2018. Of the three bonds, only one was issued during the scope period of the performance audit so it was selected for testing as the initiation of the bond would fall within the scope of the testing. For the bond issue tested, audit procedures disclosed that alternatives were presented to the BCC to finance the project which included a 15 year bank loan, a 20 year bank loan, and a 30 year bond issue.

RECOMMENDATION:

MGT recommends that management implements procedures to periodically evaluate service delivery methods: Specifically:

- ◆ Evaluate services provided by the County, including in-house and contracted services, should be periodically evaluated to determine whether alternative service delivery methods have the potential to reduce costs without significantly affecting the quality of services.

FINDING 4: GOALS, OBJECTIVES AND PERFORMANCE MEASURES

The Public Works Department goals and objectives are clearly stated and are consistent with the County’s strategic plan. Additionally, the performance measures used by management to evaluate program performance and are sufficient to assess program progress toward meeting its goals and objectives. However, the Debt Service function does not monitor the work or measure the performance of the external financial consultant to verify quality of work.

CURRENT SITUATION

The County has adequately identified current infrastructure needs including roads and bridges, engineering, water quality and facilities. Per the County’s website, the County is to be responsive

to citizens in providing an appropriate level of accessible services on a cost-effective basis. Critical County values include:

- ◆ continual improvement of infrastructure;
- ◆ health, safety, and well-being of the citizens;
- ◆ preservation of natural resources;
- ◆ responsible economic development;
- ◆ leadership; and
- ◆ stewardship.

The Public Works Department goal is to provide infrastructure and quality of life related services to residents and visitors of Okaloosa County. MGT interviewed County personnel, reviewed policies and procedures and performed research to gain an understanding of the Department’s goals and objectives. Based on our audit procedures, we identified three (3) goals and related objectives and performance measures that covered the program areas under audit, see **Table 3 – Goals, Objectives and Performance Measures**.

TABLE 3 – GOALS, OBJECTIVES AND PERFORMANCE MEASURES

| GOALS | OBJECTIVES | PERFORMANCE MEASURES |
|--|---|---|
| ENGINEERING | | |
| <p>1. To provide safe infrastructure and quality of life related services to residents and visitors.</p> | <p>a) Provide engineering services that enhance or maintain the health, safety and welfare of the general public.</p> <p>b) Provide timely and courteous assistance to citizens.</p> <p>c) Acquire the necessary rights-of-way, easements, deeds and agreements to construction and maintain County infrastructure.</p> <p>d) Verify that all submitted designs meet or exceed the minimum standards set forth in the Land Development Code to protect the health, safety and welfare of the general public.</p> <p>e) Inspect improvements to verify that they are constructed in accordance with the approved development</p> | <ul style="list-style-type: none"> ● Grants acquired ● Construction contracts finalized ● Project designs completed by staff ● Project designs completed by consultants ● Average time to process payment requests ● Percentage of projects completed under budget ● Ratio of grant dollars to County match dollars spent on design/construction projects. |

| GOALS | OBJECTIVES | PERFORMANCE MEASURES |
|--|--|---|
| | documents prior to making a recommendation to the BOCC for acceptance of maintenance responsibility. | |
| ROADS | | |
| To provide transportation and infrastructure services to residents and visitors. | <ul style="list-style-type: none"> a) To maintain all roads on the county-maintained list to a clean, safe and passable condition. b) To maintain all bridges and culvers on the county-maintained list to a clean, safe and passable condition. c) Grade and maintain all dirt roads one per week. d) Maintain pavement markings on county roads. Restripe every 5 years. e) Complete road striping program. f) Install and maintain guardrails at critical points in the county. g) Continue paving dirt roads as feasible. | <ul style="list-style-type: none"> • Number of work orders completed • Miles of Roads Resurfaced • Grade/maintain 198 miles of dirt road once per week • Road striping number of miles • % of county roads paved/base stabilized |

Per a review of the program goals and objectives in the above table, the program goals are clearly stated which include to provide a safe transportation, infrastructure and quality of life related services to the residents and visitors of Okaloosa County. The measures for the objectives are clearly stated and measurable and, based on the projects tested can be achieved within budget. Measures range from simple, easy measures such as miles of roads resurfaced, and number of work orders completed to more complex measures such as percent of county roads paved/base stabilized.

MGT reviewed the County’s Strategic Plan to gain an understanding of the County’s wide goals and objectives that are related to the program areas covered in this audit. The County’s goal is continual improvement of infrastructure; health, safety, and well-being of the citizens; preservation of natural resources; responsible economic development; leadership; and stewardship. Per review of the County’s Strategic plan, it can be seen that the program in the table above addresses safety of the citizens, minimizing impacts to the natural environment, meeting the needs of the citizens by improving transportation, support healthy living strategies and programs with most of the focus on infrastructure which supports the County’s goals.

MGT also performed procedures (e.g., flowcharted processes, reviewed policies and procedures, interviewed personnel) to identify and evaluate significant internal controls within the context of the audit objectives. Audit procedures disclosed that the program has a process and internal controls in-place which include:

- ◆ An annual needs analysis is conducted to assist in the objective selection of projects in line with the county's goals and objects.
- ◆ All payments greater than \$50,000 are approved by the County Administrator and those greater than \$100,000 must be approved by the BOCC chair.
- ◆ The purchasing policy outlines the requirements for the initiation of any purchase including project work. A competitive bid process is used to ensure that the County receives the best price for projects completed in Public Works.
- ◆ Review and approval of invoices for the payment of project work goes through multiple reviews and approvals prior to payment.

Audit procedures also identified three (3) internal control deficiencies that have been addressed in this report (two internal controls to strengthen the financing process regarding financing options and oversight of bond compliance and the third control recommendation to strengthen the change order process). We did not test all internal controls in Public Works, so deficiencies may exist that we have not identified, but focused our testing on those controls that would enable the County to meet the requirements of the performance audit. The internal controls identified were clearly reflected in the County's policies and procedure and the three (3) deficiencies identified were not control failures but recommendations for additional controls to strengthen the processes. The internal controls and policies and procedures in place provide reasonable assurance that the County will be able to meet their program objectives which includes the safety of the citizens, minimizing impacts to the natural environment, meeting the needs of the citizens by improving transportation, and support healthy living strategies.

Review of the debt service as it relates to the projects was within the scope of the performance audit. In discussions with the Office of Management and Budget and Treasury departments, it was determined that an outside financial consultant, along with Treasury are responsible for the debt disclosures and compliance. MGT interviewed appropriate personnel and reviewed policies and procedures to gain an understanding of the internal controls in place to ensure that the program goals and objectives will be met. Audit procedures disclosed that:

- ◆ The County outsources the disclosure and monitoring requirements for bond compliance to an outside financial planner.
- ◆ The evaluation and footnote disclosures are not reviewed by the County for accuracy and completeness.

Although the compliance and disclosure requirements can be outsourced to an outside individual, the responsibility for the completeness and accuracy of these requirements lies with the County. In response to audit inquiries, County personnel indicated that:

- ◆ The County does not have an individual on staff with the expertise to monitor and ensure the accuracy of the data provided.
- ◆ The Clerk of the Court Treasury Director had solely filled this role (including coordination with the financial advisor and review of all compliance documents and filings before issuance) until recently, but the County's Office of Management and Budget will fulfill this role going forward.

As of the time of audit testing there was no evidence of the revised process or controls for monitoring this function under the supervision of the newly created Office of Management and Budget. The absence of properly monitoring the compliance and disclosure requirements prepared by the outside financial consultant increases the risk that compliance and/or disclosure requirements are inaccurate or incomplete resulting in compliance violations and/or incomplete financial statement disclosure. Additionally, any errors made in the outsourced function would not be identified by the County as they are not properly monitoring the activity.

RECOMMENDATION:

MGT recommends that the County implements procedures to ensure that the activities of the outside financial consultant are monitored by an individual with the skills and expertise to monitor these activities.

FINDING 5: ADEQUACY OF PUBLIC DOCUMENTS AND REPORTS

The Public Works Department has processes in place to ensure the accuracy and completeness of any program performance and cost information provided to the public. Additionally, the public has access to information that is useful, timely, readily available and easy to locate.

CURRENT SITUATION

All County government records, unless exempted by state or federal law, are public records as per Ch. 119, *Florida Statutes*. This statute is referred to as the Florida Sunshine Law and it governs the public's right to inspect and obtain copies of public records including documents, reports and requests related to programs and functions. All of the County's agencies are required to centrally record and track public record requests. Providing access to public records is a duty of each agency within Okaloosa County government.

Providing timely and accurate information is the direct responsibility of the designated County staff and the Public Information Office who developed the documents, reports and other materials. The general method of distribution of information is done through the County's

website. Once the responsible staff prepares the information, the Department manager is responsible for reviewing and approving the information. In the event that inadvertent erroneous information is released, the Public Information Officer will immediately remove the information from the website and contact the department to edit and correctly post the information.

MGT inquired with County personnel and reviewed documentation on the County's website to gain an understanding of the information that is available to the public. The review disclosed that:

- ◆ Capital Improvement Programs and contracts are available to the public on their website.
- ◆ This information posted on the procurement department website included information on the CRV Courthouse remodel and expansion and FDOT PJ Adams design and ROW, which are projects selected for testing. For these two (2) projects, MGT compared the information posted on the website to relevant information provided by the County for the specific project and determined that the information posted on the website is accurate.
- ◆ The public has access to review all contract documents including contact, invoicing, performance and costs information via the link found under the Purchasing Department/Contracts and found through paging through the Image/PDF shared.
- ◆ Audited financial statements and Single Audit reports are easily located on the County's website.

Project information and documentation used in testing was obtained from the County's website. The information was available, easy to locate and appeared accurate for the time frame of the performance audit (June 1, 2015 through May 31, 2017).

FINDING 6: PROCESS FOR ENSURING COMPLIANCE WITH POLICIES, RULES, AND LAWS

The Public Works Department has a process in-place to assess its compliance with applicable federal, state, and local laws, rules, and regulations; contracts; grant agreements; and local policies. Additionally, management has taken reasonable and timely actions to assess if planned uses of the surtax comply with applicable state laws, rules, and regulations.

CURRENT SITUATION

MGT reviewed the 2015, 2016, and 2017 Single Audit reports to assess whether any noncompliance with applicable federal, state and local laws, rules and regulations, contracts and grant agreements or internal control weaknesses were identified during the audits. Although no instances of noncompliance with applicable federal, state and local laws, rules and regulations, contracts and grant agreements were identified, MGT's review disclosed that instances of internal control weaknesses have been identified in prior years, which is discussed in detail in **Finding 1: Economy, Efficiency and Effectiveness.**

As it relates to construction contracts, the construction contracts are awarded through a formal approval by the BCC. The Department works closely with the County Attorney's office and the Purchasing Department to prepare the necessary contract documents, obtain the necessary construction bonds, obtain the proof of insurance coverage and issue the Notice to Proceed documents. Per review of project documentation sampled, evidence of bonds and insurance and Notice to Proceed were obtained and appropriately documented.

Audit procedures disclosed that:

- ◆ The County has procedures in place to ensure compliance with bond requirements which is accomplished by outsourcing this function, due to its complexity, to an outside independent financial advisor. Although this procedure ensures compliance, the responsibility for its accuracy lies with the County and noted in **Finding 4: Goals, Objectives and Performance Measures**.
- ◆ Multiple levels of review were evidenced in the audit procedures to ensure compliance with construction contracts and that only approved invoices are paid.
- ◆ The County will establish an independent citizens committee to review expenditures to ensure that revenues received via the surtax are in compliance with all applicable laws, rules and regulations. This will be accomplished by following existing policies and procedures related to purchasing, budgeting, and finance to ensure that funds are spent appropriately with Board of County Commissioners oversight.
- ◆ Management has taken major steps in the improvement of internal controls (as discussed in **Finding 1: Economy, Efficiency and Effectiveness**) and procedures evidenced by current policies and procedures updates, purchase of an inventory software and the implementation of internal controls that were identified and supported in our testing which included inventory counts and segregation of duties.

CHAPTER 4. OBJECTIVES, SCOPE, AND METHODOLOGY

The scope of this audit focused on the program related to critical needs including essential law enforcement/public safety facilities and vital equipment; the reduction of traffic congestion; the construction and repairing of roads and bridges; flood control and water quality improvements; the construction of other public facility improvements; and payment of debt. The scope period covered the operations of the program areas from the period July 1, 2015, through May 31, 2018.

The audit objectives were:

- ♦ To assess the economy, efficiency, or effectiveness of the program, including the reliability, validity, and relevance of performance and cost measures used to monitor program performance and cost.
- ♦ To determine whether the organizational structure promotes the achievement of the program's goals and objectives.
- ♦ To determine whether alternative methods of providing services and products are evaluated by program administrators and identify opportunities for alternative service delivery methods.
- ♦ To determine whether the program goals and objectives are clearly stated, measurable, achievable within budget, and consistent with the County's strategic plan.
- ♦ To assess the accuracy and adequacy of public documents, reports, and requests prepared by the County.
- ♦ To determine whether the program operations comply with applicable laws, rules and regulations, and policies and whether program administrators have taken reasonable and timely actions to assess if planned uses of the surtax comply with applicable state laws, rules, and regulations.

In conducting the audit, MGT:

- ♦ Interviewed County personnel and performed researched to gain an understanding of the entity and the transportation and facilities management programs.
- ♦ Held fraud discussions with members of the management team.
- ♦ Interviewed County personnel, reviewed policies and procedures, and created flowcharts to identify and evaluate significant internal controls relevant to the audit objectives and determine whether these controls provide reasonable assurance that program goals and objectives will be met.
- ♦ Reviewed findings, recommendations, and audit results from internal and external reports issued between the period June 1, 2015, through May 31, 2018, to determine whether management has taken reasonable and timely actions to address any

deficiencies in program performance and/or cost identified in any relevant internal or external report.

- ♦ Selected a sample of 12 projects completed by the Public Works Department and reviewed project information stored in the County's records to:
 - Determine whether projects are periodically evaluated using performance and cost data adequate to assess performance and cost.
 - Determine whether reports/data used by management on a regular basis is adequate to monitor project performance and cost.
 - Evaluate project performance and cost based on reasonable measures.
 - Evaluate whether the projects were completed on-time, within budget, and at a reasonable cost.
 - Determine whether management formally evaluated existing in-house services and activities to assess the feasibility of alternative methods of providing services, such as outside contracting and privatization, and the reasonableness of their conclusions.
 - Determine whether management assessed any contracted and/or privatized series to verify effectiveness and cost savings achieved and the reasonableness of their conclusions.
 - Identify possible opportunities for alternative service delivery methods that have the potential to reduce program costs without significantly affecting the quality of series.
- ♦ Selected the bond issued in 2016 (out of the three bonds outstanding during the time period tested and within the scope of the audit that was issued during the time frame of the performance audit; other bonds were issued outside the scope of the audit) for testing to determine whether:
 - Policies and procedures are in place to ensure the County receives the best financing option information to obtain the best financing option for the project.
 - Debt compliance is being performed and reviewed.
 - The acquisition of debt follows internal policies and procedures with the appropriate approvals.
- ♦ Reviewed policies and procedures to determine whether the County has established written policies and procedures to ensure the policy is adequate to ensure the best financing options are presented, internal controls are adequate and only authorized debt is acquired by the County.
- ♦ Reviewed the adequacy of public documents and reports prepared by the County related to the department.

- ◆ Reviewed the information posted on the County’s website to determine whether the public has access to financing and debt compliance information that is readily available and easy to locate.
- ◆ Reviewed processes the program has in place to ensure the accuracy and completeness of any debt service provided to the public.
- ◆ Interviewed County personnel to determine whether the department has procedures in place that ensure that reasonable and timely actions are taken to correct any erroneous and/or incomplete program information included in public documents, reports, and other materials prepared by the County and these procedures provide for adequate public notice of such corrections.
- ◆ Reviewed processes to determine whether the program has a process in place to assess its compliance with applicable federal, state, and local laws, and regulations; contracts; grant agreements; and local policies.
- ◆ Interviewed County personnel and created flowcharts to identify and review internal controls in place to determine whether these controls are reasonable to ensure compliance with applicable federal, state, and local laws, rules, and regulations; contracts; grant agreements; and local policies and procedures.
- ◆ Determined whether management has taken reasonable and timely actions to address any noncompliance with applicable federal, state, and local laws, rules, and regulations; contracts; grant agreements; and local policies and procedures identified by internal or external audits.
- ◆ Interviewed County personnel to determine whether management has taken reasonable and timely actions to ensure that planned uses of the surtax comply with applicable state laws, rules, and regulations.

APPENDIX A

OKALOOSA COUNTY MANAGEMENT RESPONSE LETTER



County Administrator's Office

State of Florida

September 4, 2018

Robert Holloway
MGT Consulting Group
516 North Adams Street
Tallahassee, FL 32301

**REVISED OKALOOSA COUNTY'S RESPONSE TO THE PERFORMANCE AUDIT
AND RECOMMENDATIONS AS IT RELATES TO THE REQUIRMENTS OF
FLORIDA STATUTE 212.055(10) AND THE PROPOSED SURTAX BALLOT**

The County is in receipt of the Draft Final Report of the Performance Audit (the "Report") prepared by the MGT Consulting Group, a consultant of the Office of Program Policy Analysis and Government Accountability. Attached below, please find the County's response to the findings and recommendations contained in the Report.

FINDING 1: Management has taken reasonable and timely actions to address any deficiencies in program performance and/or cost identified in internal and external audits. However, for 2 of the 12 projects tested, there was insufficient documentation to show that the project was completed in compliance with the contract documents. Additionally, the Public Works department does not have a defined procedure for determining when a project should be re-bid rather than significantly changing the project scope and cost through the change order process.

RECOMMENDATION: Management implements policies and procedures on managing project changes of a significant magnitude or that change the nature of the project. The procedures should establish a clearly defined proportion and/or dollar threshold where a project would be required to be re-bid. The procedures should also define what characteristics would define a change in the basic nature of a project (e.g., renovation to new construction), and projects that incur changes that meet these characteristics would be required to be re-bid. A traditional design-bid-build process might be a more effective control for projects where there is potential for substantial changes to scope of the project. A standard for performance monitoring should exist for capital projects. Additionally, upon completion, all projects should be evaluated by a qualified individual to ensure that the contractor or work crew completed the work to a sufficient standard of quality. The results of this evaluation should be documented and verified before final payment to the contractor and made available to the public.

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COUNTY RESPONSE: The County agrees with the Audit Findings and Recommendation. The County concurs that management has taken reasonable and timely actions to address any deficiencies in program performance and/or cost identified in internal and external audits. When a project has a change of significant magnitude, the County currently has a process to provide information to the County Attorney's Office, which independently evaluates the circumstances, and determines whether the project may proceed under the existing contract. This initial analysis is performed prior to any formal economic analysis as to whether it is in the best interest of the County to continue forward with the existing contract or rebid the project. The County agrees and it will consider the adoption of formalized procedures within the Purchasing Manual of Okaloosa County for determining when a project should be rebid based upon "scope creep" or a change in circumstance.

Concerning the finding that insufficient documentation to support contract compliance was lacking for two (2) projects, the County asserts that adequate documentation is available to document compliance and support payment. The County agrees that it would be a best practice to document project/contract completion via a certificate of final inspection or similar document.

FINDING 2: The Public Works Department has clearly defined units, minimizes overlapping functions and excessive administrative layers, and has lines of authority that minimize administrative cost. Additionally, the process to assess current staffing levels appear reasonable given the nature of the services provided and program workload. The program's current staffing levels appear reasonable given the nature of the services provided and program workload based on a thorough budgeting and staff planning process; however, the County could undertake further efforts to measure workload and productivity to validate staffing levels against volume of need. Additionally, staffing on projects is not kept in a consistent, updated system for project management use and saved for future review.

RECOMMENDATION: MGT recommends that the County incorporate further measures of workload or productivity to validate the staffing levels of the organization against need. These additional reference points can place context around staffing levels and ratios to workload that would provide more transparency as to the efficiency of operations. MGT also recommends considering implementing a project management solution that can assist in organization-wide staffing and utilization tracking and be a place to track all project-specific documentation so there are fewer manual processes and paper documentation strategies to support performance measurement. Effective implementation of a more sophisticated solution could save the organization money, ensure appropriate, trackable staffing, and make it easier for leaders to make data-driven management decisions. Resources like the Project Management Institute (PMI), offer additional best practices on project management and staffing.

COUNTY RESPONSE: The County agrees with the Audit Findings and Recommendation. The County concurs that the Public Works Department has clearly defined units, minimizes overlapping functions and excessive administrative layers, and has lines of an authority that minimize administrative costs. Further, the County agrees that it has incorporated reasonable

processes to assess current staffing given the nature of the services provided and program workload. Finally, the County agrees that its current staffing level is reasonable given the nature of the services provided and program workload. The County agrees that Public Works could undertake further efforts to measure workload and productivity to validate staffing levels against volume of need. Public Works is currently utilizing a work order software to track in-house projects. Public Works will expand the utilization of their work order software to track time and inspection activities for project management staff. This data can be used to validate staffing levels and determine the best method of project management. In addition, the County will consider further analysis of 'staffing versus workload' by an outside entity to further validate staff's ability to meet existing workload obligations.

FINDING 3: The Public Works Department does engage in episodic evaluation of alternative opportunities for service provision and effectively delivers services through a mix of in-house and contracted services within the scope of project testing. However, the Department does not have a formal process for continuously evaluating the effectiveness of alternative methods of providing services.

RECOMMENDATION: MGT recommends that evaluate services provided by the County, including in-house and contracted services, should be periodically evaluated to determine whether alternative service delivery methods have the potential to reduce costs without significantly affecting the quality of services.

COUNTY RESPONSE: The County will review and consider the establishment of a formal process for evaluating the effectiveness of alternative methods of providing services. Policy considerations related to "scope creep" or a change in circumstance were previously referenced in management's response to Finding 1. As to the debt service function, under the existing process, a recommendation as to the most appropriate and cost-effective financing approach is made by the Financial Advisor who is under contract with the County. However, that recommendation is independently-reviewed by Bond Counsel for the County, who is provided through the County Attorney's Office, representatives of the Clerk's Finance Department, and County Administration. In reference to the 2016 Bond issue and alternative funding options, additional funding options had been presented and discussed with County and Finance staff and an alternative form was not feasible due to the required term. Staff will ensure all future debt options will be formally presented to the Board via an agenda item and report. The County agrees that it will consider incorporating a policy or procedure that would formalize this review process.

FINDING 4: The Public Works Department goals and objectives are clearly stated and are consistent with the County's strategic plan. Additionally, the performance measures used by management to evaluate program performance are sufficient to assess program progress toward meeting its goals and objectives. However, the Debt Service function does not monitor the work or measure the performance of the external financial consultant to verify quality of work.

RECOMMENDATION: MGT recommends that the County implements procedures to ensure that the activities of the outside financial consultant are monitored by an individual with the skills and expertise to monitor these activities.

COUNTY RESPONSE: The County agrees that the Public Works Department's goals and objectives are clearly stated and consistent with the County's strategic plan. Further, that the performance measures used by management to evaluate program performance are sufficient to assess program progress toward meetings its goals and objectives. As to the monitoring of the debt service function, the County agrees and it will consider incorporating a policy or procedure for monitoring the work and performance of the external financial consultant to verify quality of work. However, the County contends that compliance and monitoring was completed by Clerk of Court Finance staff and an independent review was conducted by the Clerk's office for all filings and reports.

FINDING 5: The Public Works Department has processes in place to ensure the accuracy and completeness of any program performance and cost information provided to the public. Additionally, the public has access to information that is useful, timely, readily available and easy to locate.

COUNTY RESPONSE: The County agrees with the Audit Findings and Recommendations in that the Public Works Department has processes in place to ensure the accuracy and completeness of any program performance and cost information provided to the public. Further, that the Public Works Department provides access to the public that is useful, timely, and readily-available and easy to locate. The Finding does not require any additional action on behalf of the County.

FINDING 6: The Public Works Department has a process in-place to assess its compliance with applicable federal, state, and local laws, rules, and regulations; contracts; grant agreements; and local policies. Additionally, management has taken reasonable and timely actions to assess if planned uses of the surtax comply with applicable state laws, rules, and regulations.

COUNTY RESPONSE: The County agrees with the Audit Findings and Recommendations in that the Public Works Department has a process in place to assess its compliance with applicable federal, state, and local laws, rules, and regulations, contracts, grants, agreements, and local policies. Further, the County agrees that management has taken reasonable and timely actions to assess planned uses of surtax to comply with the applicable state laws, rules, and regulations. This Finding does not require any additional action on behalf of the County.

CONCLUSION

The County values the recommendations provided by MGT in the Performance Audit and will look to implement policy and procedure changes to further strengthen our internal controls. As highlighted in the report, it is evident that adequate processes are in-place, however; staff is committed to taking further steps to ensure documentation is available. In addition, we plan to

continue to strengthen the existing management control framework, which will further ensure that we safeguard all resources entrusted to the County.

Sincerely,

A handwritten signature in blue ink, appearing to read 'John Hofstad', written over a large, light blue circular scribble.

John Hofstad
Okaloosa County Administrator