



DEPARTMENT OF INSPECTOR GENERAL
OKALOOSA COUNTY, FLORIDA
JD PEACOCK II, CLERK OF CIRCUIT COURT AND COMPTROLLER



November 5, 2021

John Hofstad, County Administrator
Okaloosa County Administration Building
1250 N Eglin Pkwy, Suite 102
Shalimar, FL 32579


Mr. Hofstad,

Please find attached the report on our audit of the Tourist Development Department.

Our work served as a review of the department's internal controls, policies, and general governance.

I want to thank Jennifer Adams and her staff for the cooperation and accommodation they afforded us. Should you have any questions in the interim please do not hesitate to call me. I can be reached at (850) 689-5000 Ext. 3424.

Respectfully,


Brad E. Embry, Inspector General

CC: Jennifer Adams, TDD Director
JD Peacock, Okaloosa County Clerk of Courts

OKALOOSA COUNTY CLERK OF CIRCUIT COURT



DEPARTMENT OF INSPECTOR GENERAL



REPORT ON THE AUDIT OF THE TOURIST DEVELOPMENT DEPARTMENT

REPORT NO. BCC 21-01

REPORT ISSUED NOVEMBER 5, 2021

ISSUED BY: BRAD E. EMBRY, INSPECTOR GENERAL

AUDITOR: ANDREW THURMAN, CPA, CFE

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Introduction

Based on our office's 2020 countywide risk assessment, the Department of Inspector General's work plan for fiscal year 2021 included an audit of the Tourist Development Department (TDD).

Objective

The objective of our audit was to verify that internal control was effectively designed and operating efficiently, and to ensure that policies and procedures are appropriate for the department and are being followed.

Scope & Methodology

The scope of our audit covered all expenditures from October 1, 2019 to May 31, 2021 and all policies and procedures as of June 17, 2021. Audit methodology included interviews with County staff, risk identification, process walkthroughs, questionnaires to Tourist Development Council members, and substantive tests of controls and expenditures.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, waste, or abuse. This includes the design, implementation, and maintenance of internal controls relevant to these objectives. This review was conducted in conformance with the *International Professional Practices Framework* issued by the Institute of Internal Auditors and *Principles & Standards for Offices of Inspector General* issued by the Association of Inspectors General.

Background

Statutes and County Government

The Local Option Tourist Development Act, codified as Section 125.0104 Florida Statutes, authorizes Counties to levy a tax on the amount paid for any short-term (less than 6 months) accommodation within the County. Expenditures of these funds is essentially limited to the promotion of tourism to the County. The Act also authorizes the County to create a subcounty district in which the tax will be levied. The Tourist Development Tax is commonly called the "bed tax" and will be referred to as such throughout this report for simplicity.

On August 1, 1989, the Okaloosa County Board of County Commissioners (BCC) adopted Ordinance 89-23 creating the Tourist Development District, authorizing collection of the bed tax, and establishing the Tourist Development Council. The district, which was defined initially by specific polling districts, consisted of Destin, Okaloosa Island, and Fort Walton Beach, Mary Esther, and Cinco Bayou.

The Council was initially chaired by the Chairman of the BCC and included 3 owners/operators of tourist accommodations, 3 members involved in the tourist industry, and one representative each from the Fort Walton Beach city council and the Destin city council. Expenditures, policy, and plans are presented to the Council for approval, but all items must be ratified by the BCC to become official.

Department Overview

The primary focus of the TDD is marketing Okaloosa County as a tourist destination through the promotion of local businesses, events, and destinations. The department also manages and promotes the Destin-Fort Walton Beach Convention Center and works to maintain the local coastal resources (beaches, artificial reefs, etc.).

Current Operations

Marketing

The TDD promotes the County as a tourist destination primarily by advertising in markets both throughout the United States and internationally. Because it is the intention of the department to maximize return on investment, the TDD uses data analysis to determine the appropriate allocation of marketing funds. Data obtained from agreements with Arrivalist, VisaVue, and other sources help the TDD determine the expected value of a tourist from a specific location, which enables them to direct marketing efforts to the geographic areas that are deemed most valuable in terms of local spending.

The TDD has established “Destin-Fort Walton Beach” as the marketing brand for Okaloosa County and maintains *destinfwb.com* as a resource for visitors to learn more about the local area and plan a potential visit. The site also includes safety information, a digital download of the Visitors Guide, a live chat function, and links to the brand’s social media pages.

The TDD has also created a Partner Program, which allows local businesses to make in-kind contributions of accommodations, dining, or services in exchange for promotion by the TDD. This publicity is valuable to the businesses due to the TDD’s data driven marketing and expansive geographic reach. However, because there is no transfer of funds, the program has significantly less internal control than other TDD operations.

Coastal Resources

The TDD uses bed tax funds to protect and preserve coastal resources. This includes funding public beach and waterfront accesses, beach maintenance and restoration, lionfish initiatives and the creation of artificial reefs in the Gulf of Mexico.

Convention Center

The TDD operates and promotes the Destin-Fort Walton Beach Convention Center (DFWBCC), which is located on Okaloosa Island and has 32,000 sq. ft. of indoor event space. The DFWBCC is funded by user fees and bed tax funds. The TDD has a contract with Aramark to provide food and beverage services to the DFWBCC with Aramark providing a percentage of their monthly sales to the TDD as commission.

District Expansion

On October 5, 2021, Okaloosa County held an election to determine whether the Tourist Development District should be expanded to encompass the entire County. The referendum passed with 65% of the vote and as of March 1st, 2022, the bed tax will be collected from all short-term accommodations County-wide.

The Local Option Tourist Development Act allows the County to designate a local official to collect the bed tax. Previously, the Okaloosa County Tax Collector performed this duty, but in late 2016 declined to continue performing the collection and the obligation reverted to the Florida Department of Revenue (DOR). The DOR provides this service at no cost to the County but does not provide any data reporting.

Prior to the election, the BCC asked the Okaloosa County Clerk to take over collection of the bed tax. The Clerk’s office has hired a specialist and has entered into an agreement with a vendor to provide software and taxpayer research services. The Clerk will be able to provide comprehensive data to the

BCC, businesses, citizens, and municipalities about bed tax and collection locations, which will aid the TDD in determining how to more appropriately distribute bed tax funds among the various municipalities.

Choctawhatchee Bay Estuary Program

The Choctawhatchee Bay Estuary Program (CBEP) is intended to enhance the protection, management, and restoration of the Choctawhatchee Bay, River, and watershed. The CBEP was formed in 2017 through an intergovernmental agreement between four Florida Counties, Eglin Air Force Base, the Choctawhatchee Basin Alliance, and an Alabama watershed management authority. The program is funded by a federal RESTORE Act grant, as a subrecipient through the Gulf Consortium (a collaboration between Florida counties on the Gulf of Mexico). The CBEP Executive Director answers to the Gulf Consortium board.

When the CBEP was established, it was placed administratively under Okaloosa County government because it was determined that Okaloosa County already had effective processes in place to handle RESTORE funds. The previous Deputy County Administrator placed the CBEP within the TDD. While the program is 100% federal funded, the Executive Director and Outreach Coordinator are Okaloosa County employees. The TDD provides no operational supervision but is responsible for processing p-card charges and travel claims for the CBEP director. Additionally, hiring a CBEP outreach coordinator was conducted through Okaloosa County human resources. The CBEP staff may use a TDD Vehicle for official travel.

Okaloosa County's Grants and RESTORE Manager stated that the TDD arrangement was intended to be temporary, but the CBEP is not ready to be its own department yet. The eventual plan is for CBEP to become a non-profit organization and be removed from the County entirely.

The Federal Assistance Award funding the CBEP (GNTSP20FL0090) states that the majority of the funds will pay salary and benefits for the Executive Director and the Outreach Coordinator and official travel for the two employees. The award indicates the travel is expected to be completed with personally owned vehicles and will be reimbursed at the standard IRS rate.

Testing

During our audit, our objective was to ensure that the TDD has effective internal controls and to ensure the appropriateness of, and compliance with, established policy.

We conducted testing of bed tax expenditures and supporting documentation, underlying contracts, and reports produced by TDD staff. We pulled samples of purchasing card transactions and applied risk-based audit procedures and documented the department's financial processes and controls.

We found no instances of non-compliance with TDD policy or departures from internal control best practices. In our opinion, the TDD's system of internal control is operating effectively. See FINDING below for a discussion of departures from County policy that were made under an exception.

Conclusion

The Tourist Development Department is well managed, with extensive policies and a robust system of internal control. The Tourist Development Council and the BCC approve all expenses and plans,

and financial transactions are processed by Clerk finance. This arrangement has led to effective oversight, segregation of duties, and a significant reduction in risk.

The TDD's data driven marketing strategy is extremely proactive and appears to position the County for maximum return on investment of bed tax dollars.

We believe that the Partner Program is especially risky, given its unique function and lack of extensive internal control. However, a full examination fell outside of the scope of this audit. We are not expressing an opinion on the Partner Program at this time, but it may be the subject of a future audit engagement.

FINDING: Exceptions to County policy for purchases made with Grant funds do not always have sufficient justification.

The Okaloosa BCC Travel Policy requires the employee to utilize the "most economical" method of traveling. In almost every circumstance, use of a County owned vehicle is less costly than use of a personal vehicle. The Travel Policy also requires the employee to fill out a preauthorization form that includes the method of travel and expected amount of reimbursement to the employee.

In one instance, the CBEP Executive Director indicated on the preauthorization form that they would be using their personal vehicle for official travel and left blank the expected reimbursement section for mileage. After the travel, they submitted a claim for mileage in their personal vehicle. TDD staff initially denied the claim because this was not in line with County policy. The Grants and RESTORE Manager confirmed that this was allowed under the Federal Assistance Award, and the claim was paid to the Executive Director. As mentioned above, the CBEP Executive Director has access to a County vehicle. While their position is fully funded by grant, they remain a County employee subject to County policy.

BCC Travel Policy Section V states that "Any exception or unusual circumstances not provided for in this policy must be documented and will be subject to review and validation by the appropriate approval authority." This does not indicate that simply because an exception is allowable, it must be approved. Preference is not an appropriate justification for an exception.

Recommendation: The County should require specific justification for any exception to policy which should be approved by the appropriate authority and sufficiently documented.

Management Response

Received by email 11/4/2021

TDD agrees justification must be provided for policy exceptions. The issue here was which prevails - County policy or grant agreement. The CBEP Director has since received clarification that County policy must be followed first and foremost.