

MARTHA INGLE



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CLERK OF COURT, WALTON COUNTY, FLORIDA

Walton County Board of County Commissioners  
Planning and Development Services Division  
Public Works Division  
Limited Review of  
Choctawhatchee Basin Alliance Contract

Martha Ingle  
Clerk of the Court

Internal Audit Department

Johnny Street  
Internal Audit Manager

Report 0102  
July 2010

REPLY TO:

- 571 U.S. HIGHWAY 90 EAST ♦ P.O. BOX 1260 ♦ DEFUNIAK SPRINGS, FLORIDA 32435-1260  
(850) 892-8115 ♦ FAX (850) 892-8130 ♦ SUNCOM 676-8118 ♦ FL TOLL FREE 1-800-342-0141
- 
- 25220 U.S. HIGHWAY 331 SOUTH ♦ P.O. BOX 1327 ♦ SANTA ROSA BEACH, FLORIDA 32459  
(850) 267-3066 ♦ FAX (850) 267-1335

MARTHA INGLE



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CLERK OF COURT, WALTON COUNTY, FLORIDA

August 6, 2010

Gerry Demers, Director of Planning and Development Services  
Starsky Harrell, Interim Director of Public Works

The Internal Audit Department has conducted a limited review of the Choctawhatchee Basin Alliance Contract with the Walton County Board of County Commissioners. The review of the contracts was conducted for the period of October 1, 2005 to September 30, 2009 to determine if CBA has compiled with the contract requirements and the scope of services.

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

Responses to our Recommendations for Improvement were received from the Division Directors and are incorporated herein.

Internal Audit appreciates the cooperation of the personnel of the Planning and Development Services Division, Public Works Division, and County Finance during the completion of this audit.

Johnny Street  
Internal Audit Manager

Approved:

Martha Ingle  
Clerk of Court

c: Board of County Commissioners  
Lyle Seigler, County Administrator

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## EXECUTIVE SUMMARY

## Executive Summary

The Internal Audit Department conducted a limited review of the Choctawhatchee Basin Alliance (CBA) contract with the Walton County Board of County Commissioners (Board). The review included an examination of the contract terms and conditions for the period of October 1, 2005 through September 30, 2009. The scope of the audit included a review of the contract language, contract compliance, and invoices submitted for payment. The objectives of this review were to determine:

- 1) The adequacy of the contract language;
- 2) Whether CBA complied with the contract requirements; and,
- 3) Whether payments for invoiced services were accurate and appropriate and that controls were adequate to ensure proper approval and payment.

In the opinion of internal audit, controls over the invoice payments were adequate to ensure proper approval and payment. Based on the results of the work performed, it was determined that the contract language could use improvement. The services provided materially complied with contract requirements, except for financial reporting. Opportunities for improvement were noted and are included in this report. Internal Audit's recommendations for improvement are summarized as follows:

CBA's contract did not include a proper proposed budget that included the anticipated expenditures of the County's funds. During the four years of contracts approximately, 73% or \$573,456.11 of the \$787,400 provided by the County was used for salary. Internal audit projected the salary cost for the County to perform the coordination efforts and other compliance requirements provided by CBA. Based on two employees hired at \$15.00 per hour and using a 30% benefit rate, the County could have saved approximately \$290,000 on salaries for the terms of the contracts reviewed.

CBA failed to comply with Section 3 (Financial Reports) of the contract requirements. This provision requires CBA to provide quarterly reports to the Office of the Finance Director for Walton County. The financial reports were to include a detailed allocation of funding sources and expenditures and include a specific accounting for funds spent in Walton County.

The contract did not contain an adequate audit clause. All contracts with the County should contain a separate audit clause that would allow a representative of the County access to all records which pertain to the contract.

The Fiscal Year (FY) 2005-2006 contract was signed by the Board on February 10, 2006; however, the term of the contract began October 1, 2005. The following contract was signed by the Board on April 6, 2007 and also had a retroactive term date that began October 1, 2006. These contracts should have been prepared, approved, and presented to the Board prior to the term commencement date.

The contract indicated that the County would make quarterly payments; however, the payment schedule was set up for three payments. In addition, the payment schedule required the County to pay for some services in advance.

CBA submitted the same detailed invoice for the 4<sup>th</sup> quarter of the FY 2007-2008 contract and the 4<sup>th</sup> quarter of the FY 2008-2009 contract. Contract invoice monitoring could use enhancement.

The Contracts with CBA were for services related to the coastal dune lakes and storm water run-off permit requirements mandated by the state. There are several government agencies and organizations that are helping in the preservation and protection of the dune lakes. The Coastal Dune Lakes Advisory Board (CDLAB) was established to help protect and preserve the dune lakes that are a rare geological feature located in Walton County in Northwest Florida. As for the Choctawhatchee Bay, several towns and communities along with Walton and Okaloosa Counties have a vested interest in the preservation of the Bay and the rivers that empty into the Bay. A coordination of efforts would enhance the ability to protect the Bay.

Internal Audit noted some weaknesses and irregularities in the contracts. In the opinion of Internal Audit, the County could have accomplished the contract objectives more economically and efficiently. Recommendations for improvement are included in this report.

# INTRODUCTION



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## INTRODUCTION

### Limited Review of CBA Contract

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#### Background

The County established a relationship with CBA to promote the health of the Choctawhatchee Basin watershed by conducting water quality monitoring of the Choctawhatchee Bay and river and the Coastal Dune Lakes. The County paid CBA \$20,000 to provide the water monitoring. On February 10, 2006 the County entered into a contract with CBA to provide water quality monitoring and assistance for the NPDES program for one year beginning October 1, 2005 and ending September 30, 2006 at a cost to the County of \$225,000. A new contract for these services was entered for the fiscal years 2006-2007, 2007-2008, and 2008-2009. The funds provided for these services for the four (4) years totaled \$787,400.

In addition to the water monitoring and NPDES assistance, the contract required CBA to submit quarterly financial reports accounting for an allocation of the source of all funds and expenditures with a specific accounting of expenditures in Walton County. Also, CBA was required to submit bi-annual activity reports to the County. Although the activity report requirement was removed from the contracts after the first year, CBA continued to submit quarterly activity reports.

Prior to these contracts, CBA had a water monitoring program that performed water quality testing. On June 28, 2005, CBA requested \$125,000 from the Board to assist the County in the compliance of the NPDES permit. In addition at the July 12, 2005 Board meeting, the Coastal Dunes Lake Advisory Board submitted a four year dune lake plan prepared by CBA that would provide CBA with an additional \$150,000. The programs were combined and funding in the amount of \$225,000 was provided to CBA.

The monitoring was included as part of the contracts for services. According to the activity reports CBA used citizen volunteers and Florida LAKEWATCH (FLW) to complete the water monitoring. The volunteers collect a water sample in containers provided by FLW and store them at their home until they are collected by FLW and taken for analysis. CBA also attended the Coastal Dune Lake Advisory Board meetings. CBA helped coordinate some educational workshops that allowed County staff to obtain training and certification. Other services included participation in invasive plant removal and shoreline restoration. The water quality monitoring was the main recurring service in the contracts.

The water monitoring was used to help satisfy a portion of the NPDES permit guidelines. The Florida Department of Environmental Protection administers the NPDES program (permit) that required the County to submit a permit outlining a five year strategy for water quality with the following guidelines: (1) Public Education/Outreach, (2) Public Participation and Involvement, (3) Illicit Discharge Detection/Elimination, (4) Construction Site Runoff Control, (5) Post-Construction Site Runoff Control, and (6) Pollution Prevention/Good Housekeeping.



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## INTRODUCTION

### Limited Review of CBA Contract

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The two objectives of the contract were to expand CBA's Coastal Dune Lake Program (CDLP) and to assist the County with their compliance requirements of the NPDES permit. CBA submitted quarterly activity reports to the County designed to inform the County of CBA's activities for the quarter. The Planning and Development Services Division's Environmental section was first tasked with the administration of the contract. They received the invoices and activity reports for review. The Environmental section has subsequently been moved to the Public Works Division. In the FY 2008-2009 budget, the funding was divided between the Planning and Public Works Divisions.

#### Scope, Objectives, and Methodology

The review of the CBA contract was conducted for the period of October 1, 2005 through September 30, 2009. The scope of the audit included a review of the contract language, contract compliance, and invoices submitted for payment. The objective of the review was to determine if the contract language was adequate and served the best interest of Walton County; to determine if CBA complied with the contract requirements; and to examine and analyze the invoices submitted by CBA.

The methodology used in this audit was to review the contract language of the four contracts that were entered during the audit period. Each contract clause was reviewed in addition to the scope of services. The quarterly activity reports submitted by CBA were reviewed to help determine if CBA had complied with the terms and conditions of the contract. The quarterly invoices submitted by CBA were examined to ensure they were properly and timely processed and the correct contract payment was issued. This review originated as part of an audit of the Planning and Development Services Division. A detailed review of the expenditures and supporting documentation was not completed.

#### Overall Conclusion

Based on the results of the work performed, contract language appeared to be adequate with the exception of some conflicting terminology. It appears that CBA materially complied with most requirements of the contract with the exception of the quarterly financial reports. The internal controls over the contract's invoices appear to be adequate. Based on the information reviewed in the opinion of Internal Audit, the services received under the contract could have been performed more economically and efficiently by the County. Recommended improvements are included in this report.

**RECOMMEDATIONS FOR  
IMPROVEMENT**

1. **A Proper Proposed Budget was not Submitted with the Contracts.**

Internal Audit reviewed four (4) annual contracts that began on October 1, 2005 and ended September 30, 2009. The contracts with CBA had two objectives which were to help expand the preservation of the Coastal Dune Lakes and help assist the County in compliance with the NPDES permit. Prior to these contracts, the County paid CBA to provide water quality monitoring. Internal Audit reviewed CBA's invoices, the activity reports submitted by CBA, and interviewed County staff involved in these areas. Based on the reviews and interviews, in Internal Audit's opinion, most of these services could have been provided more economically and efficiently by the County.

The majority of services provided for the NPDES permit were related to public information and education. Public participation included the volunteers in water monitoring and projects associated with the dune lakes. These are only two of the six compliance requirements of the permit. A third requirement, pollution detection, is partially satisfied by the water quality monitoring. Pollution detection and prevention along with water run-off control are regulated by the County's planning and development services areas and are the responsibility of the Planning and Development Services and Public Works Divisions.

Based on the information reviewed, CBA staff members are essentially coordinators and facilitators. They work with existing programs and organizations to provide a service to Northwest Florida. The majority of the funds were used to pay CBA staff to coordinate efforts between the County and other government agencies, organizations, and volunteers. As part of the review of CBA's invoices, Internal Audit examined the itemized services and completed an analysis of the areas in which the funds were expended. It was determined that during the four years of the contracts, CBA used 73%, or \$573,456 of the \$787,400 provided by the County for salaries. In addition, \$78,102.37 (10%) was used for other professional services and \$30,897.75 (4%) for travel. This left 13% of the funds provided by the County for equipment, supplies, etc.

The scope of services attached to the first contract (FY 2005-2006) as exhibit A indicated that it would cost more to the taxpayers in additional staff to provide the services that CBA provided. It also indicated that 15% of the budget would be used for payroll, admin, and overhead. It also estimated that 50% of the operating expenses would be spent in Walton County. This scope of services was very vague with limited information.

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RECOMMENDATIONS  
FOR IMPROVEMENT

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Limited Review of CBA Contract

A prudent person could easily misinterpret the scope of services and anticipate that 15% of the County's funds would be used for salary and 85% used for operating expenses with 50% of the funds to be used in Walton County. The scope of services in the remaining contracts did not address salary and administrative expenses. In addition, CBA included a four year budget with their funding request submitted for the July 12, 2005 BCC meeting. In this budget, CBA projected using 30% of the funding for personnel and program administration.

The contract scope of services did not include a proposed budget indicating the intended use of County funds. County Finance received a list of line items two hours before the July 7, 2005 Budget Workshop. This list, "offered no explanation and was rather incomplete." A proper budget would afford a better informed Board the opportunity to make a more educated decision on the economy and efficiency of the contract and the actual funding requirements. The County's ability to perform a proper cost analysis that would provide the Board with assurance that the objectives and services are achieved economically and efficiently is limited without a proper budget.

During research into the CBA services, Internal Audit noted that Okaloosa County through the Okaloosa County Environmental Council partners with the Florida Department of Environmental Protection Watershed Management Section to provide a monthly water quality report. It was also noted that there was an overlap in many of the water quality monitoring sites in certain areas of the Choctawhatchee Bay. Since Choctawhatchee Bay watershed basin is a valuable asset of Walton and Okaloosa Counties, the County should investigate coordinating efforts with Okaloosa County and surrounding communities for the protection and preservation of the Bay. In addition, some of the requirements of the NPDES permit could be satisfied with the cooperation of the Tourist Development Council in relation to the public information and education.

**Internal Audit Recommends** that the contracts for services include a comprehensive proposed budget that will allow County management to determine if the contract is an economical and an efficient use of County funds. County employees that work closely in these areas should be consulted to gain a better insight into the County's ability to perform these services. Additionally, the County should inquire with other local governments to determine if mutual cooperation would be beneficial in accomplishing the protection and preservation of the Choctawhatchee Bay watershed basin.

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FOR IMPROVEMENT

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Limited Review of CBA Contract

**Management's Response:** Management agreed with the recommendations for improvement.

2. **CBA did not Comply with all Contract Terms and Conditions.**

The contracts with CBA required quarterly financial reports to be submitted to Office of the Finance Director, accounting for use of funds provided by the County. Section three (3), Financial Reports, states that the reports will provide a detailed allocation of the sources of all funds, a detailed allocation of the expenditures, and a specific accounting for expenditures in Walton County. CBA did not submit the required financial reports to the County. The documentation provided consisted of an invoice with a list of general areas of expenditures and a quarterly activity report. When County Finance requested these financial reports CBA responded with Northwest Florida State College's financial audit.

Good internal control would be to monitor contract provisions to ensure the contractor is in compliance with the terms and conditions of the contract. Thorough contract monitoring might have exposed this weakness in the controls. The financial reports would afford the County a better understanding of CBA's use of County funds and allow for a more informed decision on whether CBA was complying with the contract requirements. This would provide an additional level of internal control over the payments made to CBA. Without this level of control the County cannot provide complete assurance that all terms and conditions of the contract are met.

**Internal Audit Recommends** management implements a detailed contract monitoring program to ensure that all terms and conditions of the contract are fulfilled prior to approving payments.

**Management's Response:** Management agreed with the recommendations for improvement.

3. **CBA Contracts were not Timely Submitted to the Board for Approval.**

The Fiscal Year (FY) 2005-2006 contract was signed by the Board on February 10, 2006. The term of the contract made it retroactive from October 1, 2005. Section 6 (Term Of Agreement) states that the term is for one year beginning October 1, 2005 and ending September 30, 2006. The quarterly payment schedule required the County to pay for the first quarter of services in October 2005 for services not yet performed. The



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**RECOMMENDATIONS  
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**Limited Review of CBA Contract**

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County paid for the third quarter services in June 2006 and fourth quarter services in December 2006 totaling \$112,450, although the contract required the County to pay quarterly payments totaling \$225,000 for the term of the agreement.

The contract for FY 2006-2007 was signed by the Board on April 6, 2007 and this also made it retroactive with the beginning date of October 1, 2006. This contract should have been prepared and submitted to the Board for approval prior to the beginning of the term of the contract. Because the contract was retroactive, the payment schedule was not an actual quarterly payment schedule. For this and subsequent contracts the first scheduled payment was in March covering the first and second quarters of October through March. The second payment was scheduled for April for the third quarter of April, May, and June and the fourth quarterly payment was due in July for the months of July, August, and September. This resulted in payments being made before all services for the quarter were actually rendered.

Good business practice would be to pay for services after they are performed. This would enhance the controls over performance of the contract requirements. Additionally, good business practice would prohibit retroactive contract terms. Contracts should be approved prior to their commencement date.

**Internal Audit Recommends** contracts are presented to the Board for approval prior to the beginning of the term of the agreement. In addition, quarterly payment schedules should require payments at the end of each quarter after services have been performed.

**Management's Response:** Management agreed with the recommendations for improvement.

**4. The Contracts did not Contain an Adequate Audit Clause.**

The contracts with CBA did not contain sufficient language that would afford a proper audit of their records. Section (3), Financial Reports, indicated that CBA would provide supporting documentation to the County Finance Director upon request. Certain auditable records may not be defined as supporting documentation.

Contracts should have an audit clause that will allow a representative of the County access to the contractor's records at the contractor's place of

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Limited Review of CBA Contract

business with reasonable notice during normal business hours. Without this clause, the county must depend on the contractor to provide audit records at their discretion, time, and place.

**Internal Audit Recommends** that all contracts be written with a clearly defined audit clause that allows the County to review the contractor's records at the County's discretion as to time, place, and documentation.

**Management's Response:** Management agreed with the recommendations for improvement.

5. **Contract Reviews and Monitoring could use Some Improvement.**

As part of the contract review, Internal Audit examined the terms and conditions of the contracts and the invoices submitted for payment. CBA would submit an itemized invoice that listed the areas in which the funds were spent. During internal audit's review of the invoices, it was noted that the same invoice was submitted for the fourth quarter of FY 2007-2008 and the fourth quarter of FY 2008-2009. This invoice had the same list of expenditure items and amounts as well as the same date. Internal Audit obtained the invoices from the County's Navaline financial system. In order to ensure that the discrepancy was not in the County's financial system, County Finance requested CBA send copies of the invoices for the four quarters of each contract year. CBA returned the same invoices that were in the system further indicating that the same invoice was submitted twice. CBA sent the invoices for the two years in question; however, they failed to send the two prior years requested. It should be noted that the proper invoiced amount was approved and remitted for the quarterly payment; however, proper contract monitoring should have detected this duplicated invoice.

In addition, Internal Audit noted discrepancies in the compensation section of the FY 2005-2006 contract. The contract required a dollar total compensation for the term of the agreement of \$225,000; however, the written amount of the contract was 'TWO HUNDRED TWENTY FIVE AND 00/100THS'. In addition, the quarterly payment requirement was \$56,225 for a total of \$224,900 instead of \$225,000. CBA invoiced the County for the amount of the quarterly payment. Again, the County paid the proper invoiced amount. Finally, the FY 2006-2007 contract required quarterly payments of \$56,250; however CBA invoiced the county for \$56,225 for the first and second quarters resulting in a total payment of \$224,950 instead of the contracted \$225,000.



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**RECOMMENDATIONS  
FOR IMPROVEMENT**

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**Limited Review of CBA Contract**

As noted in Recommendation for Improvement 2, internal controls over contracts and their respective invoices would be improved with enhanced contract monitoring. Without the proper monitoring and controls, invoices with discrepancies may receive approval for payment and errors in the contract terms and conditions might go undetected.

**Internal Audit Recommends** management enhances contract monitoring. Management should more closely review reports and invoices to ensure their accuracy and legitimacy prior to approving for payment. The contracts should receive closer scrutiny to ensure the terms and conditions are appropriate, accurate, and in the best interest of the County prior to presentation to the Board for approval.

**Management's Response:** Management agreed with the recommendations for improvement.