

DON GAETZ
President of the Senate



WILL WEATHERFORD
Speaker of the House



Joint Legislative Auditing Committee

Senator Joseph Abruzzo, Chair
Representative Lake Ray, Vice Chair

Meeting Packet

Monday, February 4, 2013

2:00 P.M. to 5:00 P.M.

309 Capitol

**AGENDA
JOINT LEGISLATIVE AUDITING COMMITTEE**

DATE: Monday, February 4, 2013

TIME: 2:00 to 5:00 P.M.

PLACE: Room 309 Capitol

MEMBERS:

Senator Joseph Abruzzo, Chair
Representative Lake Ray, Vice Chair

Senator Rob Bradley
Senator Alan Hays
Senator Jeremy Ring
Senator Wilton Simpson

Representative Daphne D. Campbell
Representative Gayle B. Harrell
Representative Daniel D. Raulerson
Representative Ray Rodrigues
Representative Cynthia A. Stafford

Presentation of the Auditor General's Operational Audit of the Okaloosa Tourist Development Council and response from County officials

Annual audit of the Department of the Lottery:

Presentation of the Department's financial statements

Presentation of the Auditor General's audit of the Department's financial statements

Presentation of OPPAGA's review of the Department

Consideration of the Department's audit for the 2012-13 fiscal year

Presentation by Melinda Miguel, the Governor's Chief Inspector General, on state and local government accountability

**OKALOOSA COUNTY BOARD OF COUNTY
COMMISSIONERS' OVERSIGHT OF THE
TOURIST DEVELOPMENT COUNCIL AND USE OF
TOURIST DEVELOPMENT TAXES AND FUNDS
RECEIVED FROM BRITISH PETROLEUM**

REPORT NO. 2013-085

Audit Period May 2010 – May 2012

BACKGROUND

- ❑ The scope of our audit focused primarily on the internal controls relevant to the use of tourist development taxes and funds received directly or indirectly from BP.
- ❑ An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.
- ❑ We consulted with law enforcement during the audit to ensure we did not interfere with their investigations.

TOURIST DEVELOPMENT TAXES

Table 2

Percent Distribution	County Ordinance Use Restrictions	5-1-10 to 9-30-10	10-1-10 to 9-30-11	10-1-11 to 5-31-12	Total
First Percent	Beach Restoration and Monitoring	\$ 1,279,729.89	\$ 2,618,533.35	\$ 767,211.49	\$ 4,665,474.73
Second and Fifth Percents	Tourism Promotion	1,433,297.49	2,055,208.23	859,276.86	4,347,782.58
Second and Fifth Percents	Tourism Administration	383,918.97	550,502.20	230,163.45	1,164,584.62
Second and Fifth Percents	Beach Improvement, Facilities, Landscaping, and Maintenance	691,054.15	990,903.97	414,294.20	2,096,252.32
Second and Fifth Percents	Contingency and Statutory Improvements	51,189.19	73,400.29	30,688.46	155,277.94
Total Second and Fifth Percents		2,559,459.80	3,670,014.69	1,534,422.97	7,763,897.46
Third Percent	Tourism Promotion	383,918.97	785,560.00	230,163.45	1,399,642.42
Third Percent	Beach Improvement, Facilities, Facilities Operations, Landscaping, and Maintenance	895,810.93	1,832,973.35	537,048.04	3,265,832.32
Total Third Percent		1,279,729.90	2,618,533.35	767,211.49	4,665,474.74
Fourth Percent	Convention Center Debt Service	1,279,729.90	2,618,533.35	767,211.49	4,665,474.74
Total		\$ 6,398,649.49	\$ 11,525,614.74	\$ 3,836,057.44	\$ 21,760,321.67

Source: General Ledger

FUNDS RECEIVED FROM BP

Table 3

Type	5-1-10 to 9-30-10	10-1-10 to 9-30-11	10-1-11 to 5-31-12	Total
Negotiated Settlements				
Tourist Development Taxes Lost Revenues (1)	\$	\$ 1,567,052.00	\$	\$ 1,567,052.00
Water and Sewer Department Lost Revenues		110,345.57		110,345.57
Total Negotiated Settlements		1,677,397.57		1,677,397.57
Reimbursements				
BP Claims Reimbursements	1,116,113.85	146,801.86		1,262,915.71
Performance Based				
Emergency Medical Services Aid Stations	634,041.00			634,041.00
Grants				
Tourism Promotion (1)	750,000.00			750,000.00
Tourism Promotion (1)	1,371,939.00			1,371,939.00
Tourism Promotion (1)		6,506,013.00		6,506,013.00
Total Grants	2,121,939.00	6,506,013.00		8,627,952.00
Total	\$ 3,872,093.85	\$ 8,330,212.43	\$	\$ 12,202,306.28
Note (1): Total Received for Tourism Promotion	\$ 2,121,939.00	\$ 8,073,065.00	\$	\$ 10,195,004.00

Source: General Ledger

FINDINGS AND RECOMMENDATIONS

- ❑ 25 findings and recommendations in the following broad categories:
 - Organizational oversight
 - Fraud controls and control risk assessments
 - Procurement
 - Special events grants and sponsorships
 - Allowable uses of restricted resources
 - Miscellaneous

FINDING 1: BUDGET PREP AND MONITORING

Table 2		
Percent Distribution	County Ordinance Use Restrictions	Total
First Percent	Beach Restoration and Monitoring	\$4,665,474.73
Second and Fifth Percents	Tourism Promotion	4,347,782.58
Second and Fifth Percents	Tourism Administration	1,164,584.62
Second and Fifth Percents	Beach Improvement, Facilities, Landscaping, and Maintenance	2,096,252.32
Second and Fifth Percents	Contingency and Statutory Improvements	155,277.94
Total Second and Fifth Percents		7,763,897.46
Third Percent	Tourism Promotion	1,399,642.42
Third Percent	Beach Improvement, Facilities, Facilities Operations, Landscaping, and Maintenance	3,265,832.32
Total Third Percent		4,665,474.74
Fourth Percent	Convention Center Debt Service	4,665,474.74
Total		\$21,760,321.67

Source: General Ledger

FINDING 1: BUDGET PREP AND MONITORING

- ❑ The BCC did not adopt and use budgets for these revenues at the level of their restriction (e.g., tourism promotion) or by project.
- ❑ Budgets at these levels are important and need to be incorporated into the county's accounting records to ensure that funds are spent in accordance with law and BCC intentions.
- ❑ As of May 31, 2012, County records indicated cumulative overexpenditures from tourist development taxes restricted for tourism promotion of \$4.2 million.

FINDING 2: TDC DUTIES AND RESPONSIBILITIES

- ❑ By law, the TDC is only an advisory council to the BCC. Final action and approval rests with the BCC to ensure actions are in accordance with BCC intentions.
- ❑ We noted actions taken by the TDC and TDC subcommittees that did not appear advisory in nature and provided examples of those actions in our report.

FINDING 3: TDC MONITORING OF EXPENDITURES

- ❑ By law, the TDC must continuously review expenditures of tourist development taxes, receive quarterly expenditure reports, and report possible unauthorized expenditures to the BCC.
- ❑ We noted that the TDC did not regularly receive expenditure reports to enable it to carry out its responsibilities.

FINDING 4: CONFLICTS OF INTEREST

- ❑ Section 112.313, F.S., prohibits procurement transactions and contractual relationships that may result in a conflict of interest.
- ❑ We noted County procurement transactions involving BCC, TDC, or TDC subcommittee members.
 - \$27,067 paid to chamber of commerce; a BCC member, was the executive director of the chamber.
 - \$17,500 paid for two companies to promote volleyball tournaments; a TDC member, was an owner or director of these companies.
 - \$2,200 paid for aerial advertising to a company; a TDC subcommittee member, was the president of the company.
- ❑ Waivers or disclosures allowed by law were not documented in County records.

FINDINGS 5 AND 6: FRAUD CONTROLS & CONTROL RISK ASSESSMENTS

- ❑ BCC policies and procedures did not include a written fraud response plan (e.g., investigation protocols and guidance on reporting known or suspected fraud to authorities) or periodic control risk assessments.
- ❑ Periodic risk assessments were not performed for each department, including the tourist development department, to identify and address potential fraud or control risks (e.g., the risk that assets may be misappropriated).
- ❑ Had these risks been timely identified and addressed by the County, the risks and impact of many of the issues discussed in our report may have been minimized.

FINDING 7: COMPETITIVE PROCUREMENT BY THE COUNTY

- ❑ County policies and procedures require the use of specified competitive procurement for certain goods and services.
- ❑ We noted goods and services acquired that were not competitively procured and that the selection of two advertising and marketing firms did not follow County policies and procedures or good business practices.
- ❑ Failure to follow County policies and procedures could expose the County to challenges or legal actions and increases the risk that firms may be selected without the requisite qualifications and experience.

FINDING 8: CONTRACT DESIGN

- ❑ Contracts with the two advertising and marketing firms entered into during 2011 did not include certain necessary provisions to protect the County's interests.
- ❑ Examples: 1) One firm's contract did not require the firm to provide cost estimates or obtain BCC approval of projects and campaigns. 2) Neither contract required the firms to competitively procure goods or services purchased on behalf of the county, or to submit sufficiently detailed and supported invoices to allow for an effective preaudit by county personnel.
- ❑ An agreement with a contractor who assisted in responding to the oil spill allowed the contractor to be compensated at time plus expenses, but did not specify the nature and type of expenses to be reimbursed.

FINDING 9: CONTRACT MONITORING AND PAYMENTS

- ❑ The two advertising and marketing firms were paid \$12.7 million during the audit period.
- ❑ One of these firms was paid a monthly retainer in addition to reimbursements for purchases made on behalf of the County. We noted some questionable payments to the firm as follows:
 - \$143,000 for services of an integrated marketing associate and sales/public relations associate, although these services appear to be the types of services already covered by the retainer.
 - \$20,500 for social media management and \$3,400 for out-of-pocket expenses under the first contract (May 2010 – September 2011), although the contract did not provide for the firm to be paid such expenses.

FINDING 9: CONTRACT MONITORING AND PAYMENTS

- ❑ We noted \$12.1 million paid to the two firms that were inadequately supported to allow for an effective preaudit by County personnel.
- ❑ A majority of the payments were supported only by firm invoices and not by invoices from the vendor providing the goods and services.
- ❑ As a result, County records did not demonstrate the accuracy of the billings or that the purchases were reasonable, allowable, and served a public purpose.
- ❑ Several invoices incorrectly or inadequately described what was actually purchased.

FINDING 9: CONTRACT MONITORING AND PAYMENTS

- ❑ We also noted a total of \$1.1 million paid to the two firms that, according to invoices, related to certain expenses of an airline company such as: 1) advertising expenses, 2) unspecified marketing and advertising initiatives, and 3) out-of-pocket expenses.
- ❑ The County had no contract or agreement with the company. County records did not indicate why the payments were made, how the payments benefited the County, or why they were considered to be allowable uses of tourist development taxes or BP funds.

FINDING 9: CONTRACT MONITORING AND PAYMENTS

- We recommended that the County continue its efforts to obtain adequate support for payments made to the firms, consult with its legal counsel, determine whether the County is entitled to recover any questionable billings, and take action to recover those billings.

FINDING 10: COMPETITIVE PROCUREMENT BY CONTRACTORS

- ❑ As noted earlier, significant amounts of purchases were made through the two advertising and marketing firms.
- ❑ County records did not demonstrate that the firms competitively procured the goods or services.
- ❑ Our report includes three examples (a yacht, three motor vehicles, beach towels) of purchases that should have been competitively procured, but were not.

FINDING 11: ADVANCE PAYMENTS

- ❑ By law, the County is prohibited from making advance payments unless it saves money, or the goods or services are essential and can only be purchased if paid for in advance.
- ❑ We noted instances where that was not the case, including three instances where the County paid in advance for services that were never rendered or were not rendered in full.

FINDING 12: APPROVAL OF PURCHASES

- ❑ County policies and procedures specify the employees who must approve purchases. These approvals vary with the type and amount of each purchase.
- ❑ We noted instances where the required approvals were not obtained, including instances where the BCC chairman was allowed to approve purchases in lieu of the County Administrator.

FINDING 13: PURCHASING CARD CONTROLS

- ❑ From May 2010 – May 2012, p-card purchases from tourist development taxes and BP grant funds totaled \$600,000.
- ❑ P-card controls needed to be improved, including the need to maintain receipts and documentation to clearly document the public purpose served by the purchases.
- ❑ Exhibit B in our report provides details of inadequately supported p-card purchases.

FINDING 14: TRAVEL EXPENDITURES

- ❑ By law, the County is required to use travel vouchers. County policies and procedures also require preapproval for some travel (TDC members and employees) but not all travel (contracted employees, travel writers, etc.)
- ❑ Preapprove of travel not required for all authorized persons.
- ❑ Our tests disclosed travel expenditures that were not supported by travel vouchers.

FINDING 15: SPECIAL EVENTS GRANTS

- ❑ From May 2010 – May 2012, \$341,000 in special events grants were awarded to various organizations to increase tourism and the use of lodging facilities.
- ❑ No written policies and procedures were in effect to govern these awards.
- ❑ Other deficiencies: 1) no written agreements with recipients, 2) no documentation of how awards were used, and 3) no evidence that awards were effective.

FINDING 16: SPONSORSHIPS

- ❑ From May 2010 – May 2012, \$478,000 in sponsorships were provided to various organizations to increase tourism and the use of the convention center.
- ❑ No written policies and procedures were in effect to govern sponsorships.
- ❑ Other deficiencies: 1) no written agreements with recipients, 2) no documentation of how the sponsorships were used, and 3) no evidence that the sponsorships were effective.

FINDING 17: TOURIST DEVELOPMENT TAXES – STATUTORY COMPLIANCE

- ❑ By law, any use of tourist development taxes not expressly authorized is prohibited.
- ❑ From May 2010 – May 2012, the County used \$1.9 million of the taxes to fund a portion of lifeguarding and beach patrol services and \$564,000 in taxes to fund a portion of the beach shuttle.
- ❑ Neither use is expressly authorized by law.

FINDING 17: TOURIST DEVELOPMENT TAXES – STATUTORY COMPLIANCE

- ❑ AGO 90-55 concluded tourist development taxes could not be used to provide lifeguards or other general governmental functions owed to the public at large.
- ❑ We recommended that the County seek an opinion from the Attorney General as to the allowability of the \$2.5 million in expenditures.

FINDING 17: TOURIST DEVELOPMENT TAXES – STATUTORY COMPLIANCE

- ❑ The County acknowledged the finding and recommendation as it relates to lifeguard services, agreed that clarification is needed, and is considering what type of clarification should be obtained.
- ❑ Although the County indicated beach shuttle services are not a general governmental function owed to the public at large, beginning in the 2012-13 fiscal year, the County stopped funding the beach shuttle from tourist development taxes.

FINDING 18: BP GRANT COMPLIANCE

- ❑ The County received a \$6.5 million BP grant through the Florida's Coastal Northwest Communications Council (FCNCC).
- ❑ The grant agreement indicated funds were intended to be used for promotion and awareness building expenditures not already planned or that would not normally be made to promote tourism.
- ❑ Lack of support for firm invoices made it difficult to identify all exceptions; however, we did note several exceptions.

FINDING 18: BP GRANT COMPLIANCE

- ❑ Examples: 1) \$61,000 in routine monthly fees, and 2) \$57,000 in special event grants previously paid with tourist development taxes.
- ❑ This appears contrary to the terms of the grant agreement, so we recommended the County consult with the FCNCC as to the allowability of the questioned costs totaling \$117,994.

FINDING 19: BP GRANT COMPLIANCE – DEBIT CARD PROGRAM

- ❑ The County received a \$1.4 million BP grant from FCNCC of which \$1 million was used to buy 5,000 debit cards worth \$200 each.
- ❑ The cards were intended to be given away to lodging guests who met certain criteria in hopes that the cards would be used at local businesses.
- ❑ County records indicated that 3,651 cards were used for this purpose; however our tests disclosed that some of these cards were not, of record, used for an authorized purpose.

FINDING 19: BP GRANT COMPLIANCE – DEBIT CARD PROGRAM

- ❑ The former TDC Director controlled the distribution of the remaining 1,349 cards that were not provided to lodging guests. Of those debit cards:
 - 1,000 cards were given to an airline company with no written agreement as to how cards were to be used.
 - 46 cards were used by individuals associated with the TDC (e.g., the TDC Director, certain employees and contracted personnel).
 - 1 card was used as a prize in a local golf tournament.
 - 302 cards were either not used or County records didn't demonstrate how they were used.

FINDING 19: BP GRANT COMPLIANCE – DEBIT CARD PROGRAM

- ❑ In total, we noted \$207,730.45 of purchases with these debit cards for which County records did not evidence the purchases were allowable uses.
- ❑ We recommended the County consult with the FCNCC as to the allowability of \$207,000 in questioned costs.

FINDING 20: BP CLAIMS/REIMBURSEMENTS

- ❑ Given the scope of the audit, even though already approved by BP, we reviewed the use of BP claims and reimbursements.
- ❑ BP paid the county \$634,000 to provide medical aid stations for beach clean-up crews.
- ❑ The rate billed for an EMS vehicle at one station was contrary to the rate in the BP agreement. The resulting overcharge was \$27,000.

FINDING 20: BP CLAIMS/REIMBURSEMENTS

- ❑ The County also contracted with a vendor to help respond to the oil spill and received \$981,000 in reimbursements from BP related to the vendor's costs.
- ❑ We reviewed documentation related to selected reimbursements, not all reimbursements.
- ❑ We noted \$385,000 of the above that was inadequately supported or was for goods or services not clearly allowed by contract/related to vendor provided services.

FINDING 20: BP CLAIMS/REIMBURSEMENTS

Inadequately supported reimbursement claims:

- ❑ \$370,000 in salaries not supported by vendor employee's time records.
- ❑ \$6,100 in boat rentals unsupported by boat owner invoices.
- ❑ \$3,200 spent at restaurants and convenient stores with inadequate documentation of either items purchased, purchaser, or consumer.
- ❑ \$5,700 for questionable items including alcohol, personal hygiene products, medications, out-of-county or state lodging, car rental, and airfare.

FINDINGS 21 THROUGH 25:

- ❑ 21 - Controls over use of fuel cards needed improvement.
- ❑ 22 – The County incorrectly classified and recorded certain expenditures.
- ❑ 23 – The BCC had not adopted written policies, and the County had not established adequate controls, over electronic funds transfers.
- ❑ 24 – Controls over employee access privileges to data and information technology resources needed improvement.
- ❑ 25 – The County did not always comply with the Sunshine Law regarding recording minutes of TDC and TDC subcommittee meetings.

Questions?

**OKALOOSA COUNTY BOARD OF COUNTY
COMMISSIONERS' OVERSIGHT OF THE
TOURIST DEVELOPMENT COUNCIL
AND USE OF TOURIST DEVELOPMENT
TAXES AND FUNDS RECEIVED FROM
BRITISH PETROLEUM**

Operational Audit



**BOARD OF COUNTY COMMISSIONERS, COUNTY ADMINISTRATOR, CLERK OF THE
CIRCUIT COURT, TOURIST DEVELOPMENT COUNCIL, AND EXECUTIVE DIRECTOR
OF THE TOURIST DEVELOPMENT COUNCIL**

The Okaloosa County Board of County Commissioners, County Administrator, Clerk of the Circuit Court, Tourist Development Council, and Executive Director of the Tourist Development Council who served during the period May 2010 through May 2012 are listed below:

<u>Board of County Commissioners</u>	<u>District No.</u>
Wayne Harris, Chair to 12-31-2010	1
John Jannazo to 11-15-2010	2
Dave Parisot from 11-16-2010, Vice Chair from 1-1-2012	2
Bill Roberts, Vice Chair from 1-1-2011 to 12-31-2011	3
Don Amunds, Vice Chair to 12-31-2010, Chair from 1-1-2012	4
James Campbell, Chair from 1-1-2011 to 12-31-2011	5
 <u>County Administrator</u>	
James D. Curry	
 <u>Clerk of the Circuit Court</u>	
Don W. Howard	
 <u>Tourist Development Council</u>	
Kathy Houchins, Chair from 10-1-2010	
Robert "Bobby" Nabors, Vice Chair from 12-15-2010	
Dennis "Nick" Nicholson, Chair to 9-30-2010	
Warren Gourley, Vice Chair to 12-14-2010	
Timothy M. Edwards	
Patricia Hardiman	
Larry Hines	
Lino Maldonado	
James Campbell, Board Liaison to 11-25-2011	
Dave Parisot, Board Liaison from 11-26-2011	
 <u>Executive Director of the Tourist Development Council</u>	
Darrel Jones to 5-31-2010	
Mark Bellinger from 5-13-2010 to 5-4-2012 (Deceased)	
Greg Donovan, Interim from 5-5-2012	

The audit team leader was Kenneth C. Danley, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-9031.

This report and other reports prepared by the Auditor General can be obtained on our Web site www.myflorida.com/audgen; by telephone (850) 487-9175; or by mail G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**OKALOOSA COUNTY BOARD OF COUNTY COMMISSIONERS' OVERSIGHT OF THE TOURIST
DEVELOPMENT COUNCIL AND USE OF TOURIST DEVELOPMENT TAXES AND FUNDS
RECEIVED FROM BRITISH PETROLEUM**

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DEVELOPMENT COUNCIL AND USE OF TOURIST DEVELOPMENT TAXES AND FUNDS
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**OKALOOSA COUNTY BOARD OF COUNTY COMMISSIONERS' OVERSIGHT
OF THE TOURIST DEVELOPMENT COUNCIL
AND USE OF TOURIST DEVELOPMENT TAXES AND FUNDS RECEIVED
FROM BRITISH PETROLEUM**

SUMMARY

Our operational audit of the Okaloosa County Board of County Commissioners' oversight of the Tourist Development Council and use of tourist development taxes and funds received from British Petroleum disclosed the following:

ORGANIZATIONAL OVERSIGHT

Finding No. 1: The Board of County Commissioners (BCC) did not establish annual budgets for expenditures from restricted resources at the level the resources were restricted, or project budgets for each advertising project and marketing campaign, to ensure that available resources were not overspent.

Finding No. 2: The Tourist Development Council (TDC) and TDC subcommittees performed duties that were not of an advisory nature, contrary to law.

Finding No. 3: The TDC did not continuously review all expenditures of tourist development taxes, contrary to law.

Finding No. 4: The County purchased goods and services from companies or organizations that were affiliated with members of the BCC, TDC, or a TDC subcommittee, contrary to law.

FRAUD CONTROLS AND CONTROL RISK ASSESSMENTS

Finding No. 5: The BCC had not adopted a fraud response plan, and the County did not perform periodic fraud risk assessments or establish action plans to implement and monitor fraud controls.

Finding No. 6: The County did not perform and document periodic control risk assessments over the activities of collecting, accounting for, and disbursing restricted resources to identify and respond to identified control risks.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 7: The County did not consistently follow prescribed policies and procedures relating to the competitive procurement of goods and services, including the selection of two advertising and marketing firms.

Finding No. 8: The County negotiated and entered into contracts that did not contain adequate provisions to effectively protect the County's interests.

Finding No. 9: The County did not perform an adequate review or preaudit of invoices submitted by two advertising and marketing firms, including a comparison of payment requests to the provisions of contracts. As a result, the County paid two advertising and marketing firms \$12.1 million without obtaining adequate documentation supporting the goods or services received, including payments of several invoices that incorrectly or inadequately described the actual goods or services purchased.

Finding No. 10: The County did not ensure that goods or services acquired through two advertising and marketing firms were competitively procured.

Finding No. 11: The County paid for certain goods and services in advance of their receipt, including certain goods and services acquired through two advertising and marketing firms, contrary to law and the State Constitution. Some services for which the County paid in advance were not subsequently provided.

Finding No. 12: The County did not consistently follow prescribed policies and procedures relating to the approval of purchases, including purchases made through two advertising and marketing firms.

Finding No. 13: The County did not consistently follow prescribed policies and procedures relating to the use of purchasing cards (p-cards), document the receipt of goods and services purchased with p-cards that were not immediately provided to the purchaser, or document the public purpose served by the p-card expenditures.

TRAVEL

Finding No. 14: The County needed to enhance its policies and procedures to ensure that travel expenditures were preapproved and adequately documented.

SPECIAL EVENTS GRANTS AND SPONSORSHIPS

Finding No. 15: The BCC had not adopted written policies and procedures relating to special events grants, and the County did not document that the special events grants were used for allowable purposes or were effective in increasing tourism and the use of lodging facilities.

Finding No. 16: The BCC had not adopted written policies and procedures relating to sponsorships of organizations or events. In addition, the County did not consistently document the purpose for which the sponsorships were provided, that the sponsorships were used for allowable purposes, or that the sponsorships were effective in achieving the purposes for which they were provided.

ALLOWABLE USES OF RESTRICTED RESOURCES

Finding No. 17: The County paid \$2.5 million from tourist development taxes for lifeguarding, beach patrol, and beach shuttle services that were not expressly authorized by law.

Finding No. 18: The County paid \$117,994 for various goods and services from British Petroleum (BP) grant funds that were, in the past, paid from tourist development taxes, contrary to grant provisions.

Finding No. 19: As part of the Emerald Coast Money Debit Card Program, the County used \$207,730 of BP grant funds for purposes that County records did not evidence were allowed by grant provisions.

Finding No. 20: The County overcharged BP \$27,063 in connection with medical support services provided, and County records did not adequately support the allowability of \$385,185 in reimbursements received from BP.

MOTOR VEHICLES

Finding No. 21: The County had not established adequate controls over the use of fuel cards.

ACCOUNTING CONTROLS

Finding No. 22: The County incorrectly classified and recorded certain expenditures in the accounting records, contrary to guidance provided by the Florida Department of Financial Services.

ELECTRONIC FUNDS TRANSFERS

Finding No. 23: The BCC had not adopted written policies and procedures, and the County had not established adequate controls, over the authorization and processing of electronic funds transfers.

INFORMATION TECHNOLOGY CONTROLS

Finding No. 24: The County had not established adequate controls over employee access privileges to data and information technology resources.

PUBLIC RECORDS

Finding No. 25: The County did not record minutes of a TDC and TDC subcommittee meeting, contrary to law. In addition, the minutes of the remaining meetings were not signed or otherwise designated to indicate the minutes were the official minutes approved by the TDC or TDC subcommittees.

BACKGROUND

Section 11.45(3)(a), Florida Statutes, provides that the Auditor General may, pursuant to his or her own authority, or at the discretion of the Legislative Auditing Committee, conduct audits or other engagements of the accounts and records of any governmental entity created or established by law. In May 2012, the Auditor General received a request to perform an audit of the Okaloosa County Tourist Development Council (TDC) and Board of County Commissioners (BCC) with respect to the use of tourist development taxes and funds received from British Petroleum¹ (BP). Specific concerns expressed included a criminal investigation of the TDC and its former Executive Director relating to the likely misuse of public funds, including tourist development taxes and amounts paid by BP following the 2010 Deepwater Horizon Oil Spill². Pursuant to Section 11.45(3)(a), Florida Statutes, we performed this operational audit.

Okaloosa County Tourist Development Council. The BCC created the TDC in 1986 by adopting County Ordinance No. 86-06. Pursuant to Section 125.0104(4)(e), Florida Statutes, the TDC's primary purpose is to act in an advisory capacity to the BCC in matters relating to tourism and to review expenditures of tourist development taxes to ensure that they are made for authorized purposes. The TDC is composed of nine members appointed by the BCC and has an Executive Director employed by the County that manages the County's Tourist Development Department. Two TDC subcommittees, the Promotion Review Subcommittee and the Marketing Subcommittee, met during the period May 2010 through May 2012. These subcommittees were composed of the former TDC Executive Director and various appointed local business representatives.

The County accounted for its tourist development activities in the Tourist Development Special Revenue Fund and Convention Center Enterprise Fund. Table 1 summarizes the revenues received during the period May 2010 through May 2012 that were accounted for in these funds.

¹ Funds received from British Petroleum were pursuant to agreements with British Petroleum Exploration and Production, Inc., or British Petroleum PLC.

² On April 20, 2010, an explosion occurred on the mobile drilling platform Deepwater Horizon, located in the Gulf of Mexico approximately 130 miles southeast of New Orleans, Louisiana. Due to the threat that oil leaking from the drilling platform and well posed to the State of Florida, the Governor declared a state of emergency for certain counties, including Okaloosa County. In an effort to assist the State in paying the costs incurred in response to damages resulting from the explosion and oil spill, BP provided moneys to the State, certain local governments, and certain nonprofit organizations.

Table 1				
Revenue	5-1-10 to 9-30-10	10-1-10 to 9-30-11	10-1-11 to 5-31-12	Total
Tourist Development Special Revenue Fund				
Tourist Development Taxes	\$ 3,839,189.69	\$ 6,288,548.04	\$ 2,301,634.46	\$ 12,429,372.19
Beach Restoration Municipal Services Benefit Unit	70,988.84	881,665.58	850,214.86	1,802,869.28
Florida Department of Transportation Mass Transit Grants	82,113.74	218,520.30	225,860.66	526,494.70
British Petroleum	2,121,939.00	8,073,065.00		10,195,004.00
Investments	11,612.56	43,539.52	205,360.23	260,512.31
Other	14,766.51	5,000.00	76,112.46	95,878.97
Total Tourist Development Special Revenue Fund	6,140,610.34	15,510,338.44	3,659,182.67	25,310,131.45
Convention Center Enterprise Fund				
Tourist Development Taxes	2,559,459.80	5,237,066.70	1,534,422.98	9,330,949.48
Charges for Services	384,373.68	720,598.20	457,489.93	1,562,461.81
Investments	15,378.72	104,165.90	73,531.93	193,076.55
Other	231.08	311.53	200.49	743.10
Total Convention Center Enterprise Fund	2,959,443.28	6,062,142.33	2,065,645.33	11,087,230.94
Total Revenues for Both Funds	\$ 9,100,053.62	\$ 21,572,480.77	\$ 5,724,828.00	\$ 36,397,362.39

Source: General Ledger

Tourist Development Taxes. A major source of revenue used by the County for tourism promotion was tourist development taxes. Of the total revenues shown in the table above, \$21,760,321.67, or 59.8 percent, was tourist development taxes. Section 125.0104, Florida Statutes, governs how counties can assess and use tourist development taxes and allows counties to assess up to 6 percent of each dollar collected from rents of living quarters or accommodations in short-term (less than six months) facilities. This Section specifies how counties that assess tourist development taxes can use each percent of the tax and requires that counties assessing tourist development taxes establish county ordinances that specify how each percent of the tax will be used. The BCC assessed tourist development taxes of 5 percent and established ordinances governing the use of the tourist development taxes. Table 2 provides an analysis of tourist development taxes collected by the County during the period May 2010 through May 2012, showing collections by percent and ordinance restriction.

Table 2					
Percent Distribution	County Ordinance Use Restrictions	5-1-10 to 9-30-10	10-1-10 to 9-30-11	10-1-11 to 5-31-12	Total
First Percent	Beach Restoration and Monitoring	\$ 1,279,729.89	\$ 2,618,533.35	\$ 767,211.49	\$ 4,665,474.73
Second and Fifth Percents	Tourism Promotion	1,433,297.49	2,055,208.23	859,276.86	4,347,782.58
Second and Fifth Percents	Tourism Administration	383,918.97	550,502.20	230,163.45	1,164,584.62
Second and Fifth Percents	Beach Improvement, Facilities, Landscaping, and Maintenance	691,054.15	990,903.97	414,294.20	2,096,252.32
Second and Fifth Percents	Contingency and Statutory Improvements	51,189.19	73,400.29	30,688.46	155,277.94
Total Second and Fifth Percents		2,559,459.80	3,670,014.69	1,534,422.97	7,763,897.46
Third Percent	Tourism Promotion	383,918.97	785,560.00	230,163.45	1,399,642.42
Third Percent	Beach Improvement, Facilities, Facilities Operations, Landscaping, and Maintenance	895,810.93	1,832,973.35	537,048.04	3,265,832.32
Total Third Percent		1,279,729.90	2,618,533.35	767,211.49	4,665,474.74
Fourth Percent	Convention Center Debt Service	1,279,729.90	2,618,533.35	767,211.49	4,665,474.74
Total		\$ 6,398,649.49	\$ 11,525,614.74	\$ 3,836,057.44	\$ 21,760,321.67

Source: General Ledger

Of the tourist development taxes collected, the first, second, and fifth percents were accounted for as revenues in the Tourist Development Special Revenue Fund. The third and fourth percents were accounted for as revenues in the Convention Center Enterprise Fund. The County generally used the tourist development taxes as follows:

- **First Percent.** To restore and monitor nine and one-half miles of County beaches, including the beaches within the Destin city limits.
- **Second and Fifth Percents.** To promote tourism, operate the Tourist Development Department, maintain beaches, and set aside moneys for contingencies.
- **Third Percent.** To promote and operate the Emerald Coast Convention Center (convention center).
- **Fourth Percent.** To pay debt service on revenue bonds issued to construct the convention center.

BP Funds. Table 3 provides a summary of funds received from BP during the period May 2010 through May 2012.

Table 3				
Type	5-1-10 to 9-30-10	10-1-10 to 9-30-11	10-1-11 to 5-31-12	Total
Negotiated Settlements				
Tourist Development Taxes Lost Revenues (1)	\$	\$ 1,567,052.00	\$	\$ 1,567,052.00
Water and Sewer Department Lost Revenues		110,345.57		110,345.57
Total Negotiated Settlements		1,677,397.57		1,677,397.57
Reimbursements				
BP Claims Reimbursements	1,116,113.85	146,801.86		1,262,915.71
Performance Based				
Emergency Medical Services Aid Stations	634,041.00			634,041.00
Grants				
Tourism Promotion (1)	750,000.00			750,000.00
Tourism Promotion (1)	1,371,939.00			1,371,939.00
Tourism Promotion (1)		6,506,013.00		6,506,013.00
Total Grants	2,121,939.00	6,506,013.00		8,627,952.00
Total	\$ 3,872,093.85	\$ 8,330,212.43	\$	\$ 12,202,306.28
Note (1): Total Received for Tourism Promotion	\$ 2,121,939.00	\$ 8,073,065.00	\$	\$ 10,195,004.00

Source: General Ledger

The County experienced a decline in tourism after the oil spill that impacted the receipt of tourist development taxes and water and sewer billings. As a result, the County filed claims with BP for lost revenues. BP subsequently negotiated a settlement of these claims and awarded the County \$1,677,397.57. In addition, the County incurred expenditures related to beach monitoring and cleanup during the period immediately following the oil spill, and BP reimbursed the County \$1,262,915.71 for these expenditures. BP also contracted with the County to provide Emergency Medical Services aid stations at locations specified by BP representatives to assist workers while performing monitoring and cleanup activities. The contract provided that the County would be paid at set rates per hour of service, and it received \$634,041 for these services. After the cleanup, the County received three BP grants totaling \$8,627,952 to help rebuild and promote area tourism. These grants could be spent on a wide variety of activities including advertising, promotions, special events, and other activities.

FINDINGS AND RECOMMENDATIONS

Organizational Oversight

The BCC is entrusted by the public with the proper and efficient administration of public funds. The Okaloosa County Clerk of the Circuit Court (CCC), as ex-officio clerk of the BCC, auditor, recorder, and custodian of all County funds, is responsible for preauditing expenditures to determine whether the expenditures are lawful and properly supported prior to payment. Additionally, pursuant to Section 125.17, Florida Statutes, the CCC is required to keep the BCC’s minutes and accounts and perform such other duties as the BCC may direct. Further, the TDC is responsible for monitoring expenditures of tourist development taxes.

The BCC, TDC, and CCC did not exercise sufficient control over tourist development taxes or funds received from BP to ensure that expenditures of public funds were made in accordance with BCC intentions, grants, or contractual agreements, or were lawful, properly supported, and served a public purpose. Primary issues of concern relate to the failure to budget for and control expenditures at appropriate levels and the failure to obtain adequate support for invoices submitted for payment, especially those invoices related to contracts with two advertising and marketing firms. These and numerous other issues of concern are discussed in this report.

Finding No. 1: Budget Preparation and Monitoring

As discussed in the Background section of this report, all of the resources accounted for in the Tourist Development Special Revenue Fund and substantially all of the resources accounted for in the Convention Center Enterprise Fund were restricted for various specific purposes (e.g., tourism promotion, tourism administration, beach maintenance). However, the BCC did not adopt budgets for these restricted resources at the level of their restriction. To track the available balances of each percent of tourist development taxes, BP grant funds, and other resources at the level of their restriction, the CCC maintained a computerized spreadsheet of the revenues and expenditures at these levels. Although CCC personnel indicated that the spreadsheet was provided to the former TDC Executive Director, County records did not evidence that the spreadsheet was provided to the BCC.

As of May 31, 2012, the CCC’s spreadsheet indicated that, although tourist development taxes were not overspent in total or at the total statutory percent levels noted in Table 2, the County had overspent the portion of the second and fifth percents of tourist development taxes that was restricted by ordinance for tourism promotion by \$3.5 million. Likewise, the CCC’s spreadsheet indicated that the County had overspent the portion of the third percent of tourist development taxes that was restricted by ordinance for tourism promotion by \$689,000. As a result, funds restricted by ordinance for other purposes were used to promote tourism. CCC personnel stated that, although the spreadsheet

calculated available tourist development taxes at the ordinance restriction level, it was used primarily to ensure that tourist development taxes were not overspent in total or at the total statutory percent levels. The spreadsheet was not used by the CCC to reject invoices presented for payment when sufficient funds were not available at the ordinance restriction level.

The Tourist Development Department also engaged in various advertising projects and marketing campaigns to accomplish its goals and objectives. However, project-level budgets were not established, and expenditures were not consistently identified by project. Project budgets are an important tool in effectively allocating and managing available resources. They not only serve to control expenditures, but project budgets help to ensure that available resources are spent in accordance with applicable restrictions and BCC intentions. As noted in finding No. 8, the County could also more effectively monitor advertising and marketing expenditures by requiring that all vendor invoices be referenced to specific BCC-approved advertising projects and marketing campaigns.

In September 2012, the BCC adopted budget policies and procedures as part of the TDC’s operations and procedures manual. These policies and procedures require the TDC to submit an annual marketing plan to the BCC for approval and all expenditures to conform to the approved marketing plan. As of November 13, 2012, the 2012-13 fiscal year marketing plan had not been submitted to the BCC.

Recommendation: The BCC should adopt budgets to control expenditures from restricted resources at the level of their restriction and by each specific project funded by these restricted resources. Corresponding budgets should be incorporated into the accounting records to provide for the effective control of expenditures, and the BCC and TDC should perform periodic budget-to-actual comparisons. The CCC should reject invoices presented for payment when sufficient authorized funds are not available to pay for them.

Finding No. 2: TDC Duties and Responsibilities

As noted in the Background section of this report, the BCC created the TDC as an advisory council pursuant to Section 125.0104(4)(e), Florida Statutes. County ordinances and the TDC’s operations and procedures manual in effect during the period May 2010 through May 2012 generally prescribed to the TDC only the advisory duties provided for in Section 125.0104(4)(e), Florida Statutes. However, our review of the actions taken by the TDC and TDC subcommittees disclosed that they performed certain duties that were not of an advisory nature. For example, we noted the following actions taken by the TDC or TDC subcommittees during the period May 2010 through May 2012 for which County records did not evidence BCC approval:

- On October 10, 2010, the TDC voted to give the former TDC Executive Director authority to spend up to \$50,000 from BP grants to investigate and move forward with the use of three-dimensional and virtual reality technology for marketing purposes.
- On August 27, 2011, the TDC voted to designate \$300,000 from BP grants for special events funding.
- On various dates, the TDC and TDC subcommittees approved the use of a total of \$341,361.89 in tourist development taxes and BP grants to support special events in the County as further discussed in finding No. 15. In September 2012, the BCC approved revisions to the TDC’s operations and procedures manual that allow the TDC to approve funding requests for special events.

When the TDC or TDC subcommittees authorize expenditures without BCC approval, the County is at an increased risk that expenditures will be made that are not in accordance with BCC intentions.

Recommendation: The BCC should implement policies and procedures to ensure that the TDC performs only those duties authorized by Section 125.0104(4)(e), Florida Statutes, and County ordinances.

Finding No. 3: TDC Monitoring of Expenditures

Section 125.0104(4)(e), Florida Statutes, requires the TDC to continuously review all expenditures of tourist development taxes and receive, at least quarterly, expenditure reports from the BCC or its designee. In addition, this Section requires the TDC to report expenditures it believes to be unauthorized to the BCC and the Florida Department of Revenue. In response to our inquiry, the TDC's legal counsel indicated that the TDC reviewed planned expenditures as part of the annual budget review and adoption process. However, the TDC did not regularly receive summary or detailed reports of expenditures of tourist development taxes. When timely, detailed expenditure reports are not provided to the TDC for review, the TDC cannot effectively carry out its responsibility to continuously review these expenditures, and the County is at an increased risk that unauthorized expenditures, such as those noted in finding No. 9, could be made and not timely detected by the TDC. In May 2012, the TDC began receiving monthly expenditure reports for its review.

Recommendation: The TDC should continue to strengthen its monitoring controls by ensuring that it timely receives and reviews detailed reports of expenditures of tourist development taxes as required by Section 125.0104(4)(e), Florida Statutes.

Finding No. 4: Conflicts of Interest

Pursuant to Section 112.313(3), Florida Statutes, no county employee acting in his or her official capacity as a purchasing agent, or public officer acting in his or her official capacity, may either directly or indirectly purchase, rent, or lease any realty, goods, or services for the county from any business entity in which the officer or employee or the officer's or employee's spouse or child is an officer, partner, director, or proprietor, or in which such officer or employee or the officer's or employee's spouse or child, or any combination of them, has a material interest. This Section further prohibits a county public officer or employee from acting in a private capacity to rent, lease, or sell any realty, goods, or services to the county or any agency thereof. Pursuant to Section 112.313(7)(a), Florida Statutes, no county public officer or employee may have or hold any employment or contractual relationship with any business entity or agency that is subject to the regulation of, or is doing business, with the county. This Section further prohibits a county public officer or employee from having or holding any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her public duties, or that would impede the full and faithful discharge of his or her duties. Section 112.313(1), Florida Statutes, defines a public officer to include any person elected or appointed to hold office in any agency, including any person serving on an advisory body.

County records supporting many purchases made through two advertising and marketing firms were inadequate to determine whether the payments were made to business entities or agencies that could potentially represent conflicts of interest pursuant to the laws noted above. However, based on available supporting documentation, we noted purchases during the period May 2010 through May 2012 that appear contrary to the laws noted above. For example, we noted the following purchases made through an advertising and marketing firm:

- The County paid \$27,066.95 for sponsorships of a local chamber of commerce. A BCC member was, at the time, the executive director of the chamber of commerce.

- The County paid \$17,500 for two companies to promote and advertise local volleyball tournaments. A TDC member was, at the time, an owner or director of these companies.
- The County paid \$2,200 for a company to provide aerial advertising. A TDC Marketing Subcommittee member was, at the time, the president of the company.

Section 112.313(12), Florida Statutes, states that the requirements of Sections 112.313(3) and 112.313(7), Florida Statutes, as they relate to persons serving on advisory boards such as the TDC and TDC Marketing Subcommittee may be waived in a particular instance by the appointing body upon full disclosure of the transaction or relationship prior to the waiver and an affirmative vote in favor of waiver by a two-thirds vote of the appointing body. However, no such waivers were recorded in BCC or TDC meeting minutes.

Recommendation: The BCC should implement policies and procedures to ensure that future purchases of goods and services are not made from vendors in which a potential conflict of interest exists or that waivers of the requirements of Sections 112.313(3) and 112.313(7), Florida Statutes, as they relate to TDC and TDC subcommittee members, are granted and documented in accordance with Section 112.313(12), Florida Statutes.

Fraud Controls and Control Risk Assessments
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Finding No. 5: Fraud Controls

An effective anti-fraud program is an important part of an organization’s system of internal control. It can decrease the risk of fraud occurring in an organization and minimize the impact of fraud on an organization should it occur. Comprehensive fraud policies and procedures are an important part of an effective anti-fraud program. BCC policies and procedures in effect during the period May 2010 through May 2012 included a code of conduct, addressed unlawful and prohibited actions, and provided consequences for these actions. In addition, the BCC had adopted a whistleblower’s protection policy that provided protection to individuals who reported known or suspected violations of statutes, rules, or regulations. However, these policies and procedures did not include a written fraud response plan that addressed investigation protocols and guidance on reporting known or suspected fraud to the appropriate authorities. Without a written fraud response plan, the County is at an increased risk that known or suspected fraud may not be investigated and reported in accordance with BCC intentions.

In addition to comprehensive fraud policies and procedures, an effective anti-fraud program includes periodic fraud risk assessments and fraud controls monitoring. In response to our inquiry, County personnel indicated that identifying and assessing fraud risks are routinely part of the continual monitoring and interaction of the County Administrator and CCC. County personnel also provided examples of recent risks identified and controls put in place to mitigate these risks. However, the County had not performed and documented periodic fraud risk assessments of the operations of each County department, including the Tourist Development Department. Such fraud risk assessments would provide greater assurance of identifying potential fraud risks that may be unique to each department. Once potential fraud risks are identified, written action plans that implement and monitor controls designed to mitigate these risks would provide greater assurance of preventing or detecting fraud.

Recommendation: The BCC should strengthen its anti-fraud program by adopting a fraud response plan, requiring periodic fraud risk assessments, and developing action plans to implement and monitor fraud controls.

Finding No. 6: Control Risk Assessments

As discussed in the Background section of this report, the County is responsible for collecting, accounting for, and making disbursements from restricted resources, including tourist development taxes and funds received from BP. Therefore, it is important that the County identify the control risks associated with these activities and develop internal controls to mitigate significant control risks identified. Performing periodic control risk assessments can help to identify and analyze these risks. Control risk assessments should involve a systematic identification of circumstances or events that could prevent the County's goals and objectives from being met, an assessment of the probability and significance of these circumstances or events, and a determination on the part of County management as to whether it is cost-beneficial to implement controls to prevent or detect these circumstances or events. As a practical matter, a formal control risk assessment could be performed and documented on an annual basis; however, as a good business practice, the control risk assessment process should be ongoing as new internal and external threats constantly develop.

Upon inquiry, County personnel indicated that they had not performed and documented a recent control risk assessment relating to the activities of collecting, accounting for, and making disbursements from restricted resources, including tourist development taxes and funds received from BP. Periodic control risk assessments would provide greater assurance of identifying potential control weaknesses, such as those noted throughout this report, and would help ensure that adequate internal controls are in place to minimize the risks that control weaknesses could adversely affect the County's operations.

Recommendation: The County should perform and document periodic control risk assessments over the activities of collecting, accounting for, and disbursing restricted resources, including tourist development taxes and funds received from BP.

Procurement of Goods and Services
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Finding No. 7: Competitive Procurement by the County

County purchasing policies and procedures in effect during the period May 2010 through May 2012 required a minimum of three written quotes for nonexempt purchases (i.e., purchases that were not sole source, per State contract, etc.) in excess of \$2,500 up to \$50,000, and formal bids were required for nonexempt purchases in excess of \$50,000. County purchasing policies and procedures that governed the selection of firms providing professional services required the following:

- The requesting department must seek BCC approval to distribute a request for proposal (RFP) and establish a selection committee to review the responses to the RFP, prioritize the contending firms, and negotiate an agreement with the selected firm;
- The selection committee's rankings of prospective firms should be based on the firm's capabilities, including ability, adequacy of personnel, past record, recent experience, current workload, and location; and
- The selection committee's recommended priority list must be presented to the BCC for approval prior to the commencement of negotiations with the selected firm.

Our test of six purchases made by the County during the period May 2010 through May 2012, totaling \$134,260.41 and funded from tourist development taxes or BP grant funds, disclosed three purchases, totaling \$68,650, for which three written quotes were not obtained. These purchases included \$49,500 for production services at beach concerts, \$12,800 for towing and deployment of a tug boat, and \$6,350 for an artist to provide custom artwork for the

convention center. County personnel indicated the custom artwork was a sole source purchase, but they could not provide a sole source purchase data sheet that, per County purchasing policies and procedures, must be completed and attached to the purchase requisition.

In January 2011, the County issued an RFP for “marketing/advertising/public relations/Web site/research for the TDC, Emerald Coast Convention and Visitors Bureau, Inc., Okaloosa Film Commission, and Emerald Coast Convention Center.” Prior to that time and through September 19, 2011, the County operated under an existing contract with an advertising and marketing firm that was negotiated prior to May 2010. Our review of the selection process of the firms that were awarded contracts based on their responses to the RFP disclosed that the County did not follow the purchasing policies and procedures noted above, as follows:

- The TDC did not obtain BCC approval to distribute the RFP or establish a selection committee to review the responses to the RFP, contrary to County purchasing policies and procedures. An initial evaluation committee composed of four TDC members, the former TDC Executive Director, and the General Manager of the convention center ranked the responses to the RFP and selected four firms to make subsequent presentations to the TDC. However, TDC records did not document the discussions or decisions of the initial evaluation committee.
- A final selection committee composed of seven TDC members and the former TDC Executive Director ranked the four firms based on their presentations. However, the ranking sheets provided for our review were not signed by the seven TDC members. In addition, only three of the seven ranking sheets listed the individual criteria evaluated by the selection committee, and these criteria were not the same as the criteria required by County purchasing policies and procedures. In April 2011, the TDC approved the former TDC Executive Director’s recommendation to award contracts to two advertising and marketing firms ranked first and second on the ranking sheets. One of the two firms was the same firm already under contract with the County as previously discussed above. The selection committee’s recommendation was not presented to the BCC for approval prior to the commencement of negotiations with the firms, contrary to County purchasing policies and procedures. Instead, negotiations with the firms were conducted by the former TDC Executive Director. Although the BCC approved the contracts, which were effective June 7, 2011, and September 20, 2011, respectively, the County’s selection procedures were not followed.

Failure to adequately document the selection process for professional services, including the criteria used in each selection committee member’s ranking and signed ranking sheets for each selection committee member, could expose the County to legal action should a firm wish to challenge the County’s selection. In addition, failure to follow County purchasing policies and procedures regarding the selection of professional services puts the County at an increased risk that firms may be selected without the requisite qualifications and experience to address the County’s needs.

Recommendation: The County should ensure that purchases are procured in accordance with County policies and procedures. In addition, the County should strengthen its procurement procedures to ensure that the selection process for the acquisition of professional services is documented and services are acquired pursuant to County purchasing policies and procedures. These procedures should require maintenance of documentation evidencing the basis for decisions made by selection committees and the signing of ranking sheets by each selection committee member.

Finding No. 8: Contract Design

As a matter of good business practice, contracts should be designed to effectively protect the interests of the contracting parties. Contracts should include specific information about the requirements of all contracting parties and avoid the use of ambiguous or undefined terminology. As discussed in finding No. 7, the County contracted with two advertising and marketing firms in 2011. The County’s contractual relationship was such that the firms provided

total turn-key services for the County. Generally, the firms provided advertising management and artistic services and contracted with other vendors to deliver the actual services and products. The firms paid the other vendors and claimed reimbursement on invoices submitted to the County for payment. Each of the contracts with the firms detailed the scope of services to be provided, the compensation for these services, and various general provisions and requirements.

Our review of the 2011 advertising and marketing contracts with these firms disclosed that the contracts did not contain necessary provisions to protect the County’s interests. We noted that the contract with one of the firms did not require the firm to submit cost estimates, obtain BCC approval prior to starting work on an advertising project or marketing campaign, or state the advertising project or marketing campaign with which invoices were associated. Neither contract required the firms to competitively procure goods and services in accordance with County purchasing policies and procedures. In addition, the firms were not required to submit invoices, including invoices from third-party vendors, in sufficient detail to allow for an effective preaudit to ensure the goods or services purchased were actually received and that the correct amounts were charged. The deficiencies in the design of both contracts may have contributed to the unauthorized and inadequately supported expenditures noted in finding No. 9.

The County also entered into an agreement with a contractor that assisted County personnel in responding to the oil spill. The County generally issued task orders to the contractor for specific services at specific amounts of compensation. However, we noted one task order that provided for various services to be compensated at “time plus expenses,” and the task order did not specify the types or amounts of contractor expenses that would be reimbursed by the County. The deficiencies in the design of this contract may have contributed to the inadequately supported expenditures noted in finding No. 20.

Recommendation: The County should strengthen its procurement procedures to ensure that all contracts include provisions that specify the types and amounts of contractor expenses for which the contractor is to be reimbursed and require the contractor to submit sufficiently detailed invoices to allow for an effective County preaudit. Additionally the contracts for advertising and marketing services firms should include provisions to competitively procure goods and services in accordance with County purchasing policies and procedures, and require the firms to submit cost estimates, obtain BCC approval prior to starting work on an advertising project or marketing campaign, and state the advertising project or marketing campaign with which invoices are associated.

Finding No. 9: Contract Monitoring and Contract Payments

As discussed in finding Nos. 7 and 8, the County contracted with two advertising and marketing firms and made significant payments to the firms during the period May 2010 through May 2012 as indicated in the following table:

Table 4			
5-1-10 to 9-30-10	10-1-10 to 9-30-11	10-1-11 to 5-31-12	Total
\$ 1,603,223.05	\$ 6,175,224.70	\$ 4,929,601.44	\$ 12,708,049.19

Source: General Ledger

Our review of the contracts with the firms and the related contract payments disclosed significant deficiencies in County procedures relating to contract monitoring and preauditing of contract invoices.

Contract Monitoring. The contracts with one of the firms provided that the firm would perform various services, including advertising, marketing, promotions, and public relations, for a specified monthly fee. Prior to September 20,

2011, this fee was \$26,000 per month. Beginning on September 20, 2011, pursuant to a new contract, this fee was \$38,400 per month, a 47.7 percent increase. Our review of the invoices submitted by the firm disclosed that County personnel did not effectively monitor contract payments to ensure that the invoices submitted were in accordance with provisions of the contracts. For example, in addition to the monthly fees noted above, the County paid the firm an additional \$142,942.30 for the services of an integrated marketing associate and a sales/public relations associate. However, based on the description of services to be provided pursuant to the contracts, these services appear to be the types of services covered by the monthly fee, in which case the firm would not be entitled to the additional payments for services. In addition, during the period covered by the contract in effect prior to September 19, 2011, the firm was paid \$3,351.23 for out-of-pocket expenses and \$20,500 for social media management and support services although the contract did not provide for the firm to be paid for such expenses.

Support for Invoices. Our review of payments made by the County to the two advertising and marketing firms disclosed that payments totaling \$12.1 million from tourist development taxes or BP grant funds were inadequately supported at the time the invoices were approved and paid. In many instances, the payment requests were only supported by invoices, with no supporting documentation of the services provided by the respective firms or invoices and documentation from third-party vendors that documented the goods or services they provided. In these instances, the County's records did not evidence how the purchases served a public purpose or that the purchases were allowable uses of restricted resources. Details concerning support for specific payments were provided to the County. Additional issues regarding related internal controls are discussed in finding Nos. 10, 11, 15, 16, 18, and 22.

Upon beginning our audit fieldwork, we became aware that a payment for promotion and advertising services had allegedly been misappropriated for the purchase of a house by the former TDC Executive Director. Our further review of supporting documentation for this transaction disclosed that the County paid \$747,000 from BP grant funds for an item described on an advertising and marketing firm's invoice as "Boast the Coast National Television Campaign and Promotion." After the payment was made to the firm, the former TDC Executive Director instructed the firm, via e-mail, to wire the moneys to a designated bank account. The moneys were then used by the former Executive Director for the purchase of a house titled to a revocable trust for him and his wife.

The two advertising and marketing firms subsequently provided additional documentation to the County related to certain inadequately supported payments. While it was not practical for us, upon post-audit, to review all of the additional documentation provided to the County, we reviewed the documentation provided by the firms relating to certain payments, totaling \$1.4 million, which we judgmentally selected based on amount, invoice description, or other factors. Our review of the documentation for the selected payments disclosed the following:

- Four payments, totaling \$155,400, were paid to one firm on invoices that incorrectly or inadequately described the goods or services purchased. The goods or services purchased were not allowable expenditures of tourist development taxes or BP grant funds and included the following:
 - The County paid the firm \$48,000 from tourist development taxes for an item described on the firm's invoice as a "prize for 2010-2011 Internet/viral video contest." The item actually purchased was a Porsche that was titled to the former TDC Executive Director.
 - The County paid the firm \$47,000 from tourist development taxes for items described on the firm's invoice as "convention center marketing services." The items actually purchased included \$19,620.69 in food and drinks in connection with a County Christmas party, a TDC holiday party, and a harbor cruise for employees. The remaining \$27,379.31 of the \$47,000 invoice was paid to a vendor that provided food services to the convention center. County personnel indicated that the moneys were paid to the vendor to establish a marketing fund for the purpose of promoting the vendor's off-premise catering sales on which the County receives a 17 percent commission. However, County records indicate that \$5,000 of the moneys was donated to a local charity at the request of the former

TDC Executive Director; \$576.50 was spent on a floral arrangement at one of the County's visitor centers; \$640.50 was spent on cake pops as part of a welcome package to attendees at a local chamber of commerce luncheon; \$244 was spent on alcoholic beverages, sodas, and water provided to band members who performed at the County Christmas party; and \$207.76 was spent on vendor brochures. As of November 16, 2012, almost 13 months after the disbursement to the vendor, \$20,710.55 of the moneys had not been spent.

While reviewing these expenditures, we identified other firm invoices and invoices paid directly to other vendors that, when combined with the \$19,620.69 and \$244 in food and drinks discussed above, showed that the County paid a total of \$42,871.20 for the County Christmas party that included food and drinks, bar setup, cocktail reception and tables, stage décor, and entertainment; \$3,921.77 for the TDC holiday party; and \$991.72 for the harbor cruise.

- The County paid the firm \$31,400 from tourist development taxes for what was described on the firm's invoice as "Harbor Walk/Destin Harbor Advertising." The \$31,400 was actually used to purchase furniture for the Destin TDC office, except for three pieces of furniture, totaling \$6,250, that were ultimately located in the former TDC Executive Director's home.
 - The County paid the firm \$29,000 from tourist development taxes for what was described on the firm's invoice as "Destin Harbor Marketing and Advertising." Upon inquiry by County personnel, firm personnel stated that the payment was invoiced at the former TDC Executive Director's request and that they did not know what the payment was for. The firm subsequently returned the moneys to the County.
- Nine payments, totaling \$1.1 million, were paid to the two firms based on their invoices for goods or services provided to, or on behalf of, an airline company. According to descriptions provided on the invoices, the goods and services purchased included, but were not limited to, such items as advertising, monthly retainer fees, unspecified marketing and advertising initiatives, and out-of-pocket expenses. County records did not evidence a contract between the County and the airline company regarding these payments, how the payments benefited the County, or how the goods or services purchased were allowable uses of tourist development taxes or BP grant funds from which they were paid.
- Two payments, totaling \$95,021.30, were paid to one firm from tourist development taxes for a branding reception to unveil a newly developed logo for the Emerald Coast and to discuss plans to brand the area to a national audience. The cost of the reception included \$55,906.38 for audio-visual equipment and marketing services; \$15,250.80 for event décor; \$7,855 for media services; and \$16,009.12 in labor, food, and beverages, including \$2,898 in alcoholic beverages. County records did not evidence that these expenditures were reasonable or necessary or that the BCC had established guidance on the reasonableness or necessity of TDC expenditures.

When payments are made without adequate supporting documentation, the County is at an increased risk that expenditures do not serve an authorized public purpose, are unallowable uses of restricted resources, are not necessary and reasonable costs associated with an existing advertising project or marketing campaign approved by the BCC, or are not properly billed in accordance with contract provisions. Had County personnel who approved the payments, or CCC personnel who paid the invoices, required the firms to submit adequate supporting documentation to the County before the payments were made, the questioned billings noted above may have been detected and denied.

In May 2012, the BCC approved procedures that require a written task order be prepared and approved for all subsequent payments made to the firms. In June 2012, the BCC terminated the contracts with both firms effective September 30, 2012. In September 2012, the BCC adopted contract payment policies and procedures as part of the TDC's operations and procedures manual. These policies and procedures provide that no invoice will be processed by the CCC without an approved task order and that no invoice will be approved unless the actual invoice from the provider of the goods or services has been received.

Recommendation: The County should continue to strengthen its monitoring and preaudit procedures to ensure that contract provisions are properly monitored and payments are supported by adequate documentation to allow for an effective preaudit. The County should also continue its efforts to obtain supporting documentation for payments made to the two advertising and marketing firms. In addition, the BCC, in consultation with its legal counsel, should determine whether the County is entitled to recover any questioned billings, and take appropriate action to recover such billings. Finally, the BCC should adopt written policies and procedures that provide guidance on the reasonableness and necessity of TDC expenditures.

Finding No. 10: Competitive Procurement by Contractors

As discussed in finding No. 7, County purchasing policies and procedures required competitive procurement for nonexempt purchases in excess of \$2,500. County records supporting many payments made to two advertising and marketing firms were inadequate to determine whether the goods or services purchased should have been competitively procured pursuant to County purchasing policies and procedures. However, based on available supporting documentation, we noted certain goods and services purchased through the firms that should have been competitively procured, but were not. For example, we noted the following:

- The County purchased a yacht for \$710,000. County records did not evidence that formal bids were obtained for this purchase.
- The County purchased three motor vehicles (two automobiles and a sports utility vehicle) for \$129,809, each costing less than \$50,000. County records did not evidence that three written quotes were obtained for these purchases.
- The County purchased 508 beach towels for \$8,832. County records did not evidence that three written quotes were obtained for this purchase.

County personnel indicated the goods and services purchased through the firms were not competitively procured, and the County relied on the firms to obtain the goods or services at the lowest cost consistent with acceptable quality. As noted in finding No. 8, the 2011 contracts with the firms did not require the firms to competitively procure goods and services in accordance with County purchasing policies and procedures. Given that over \$12 million was expended for goods and services acquired through the firms, failure to use a competitive procurement process in accordance with County purchasing policies and procedures resulted in limited assurance that the costs of the goods and services were competitive and reasonable.

Recommendation: The County should ensure that goods and services purchased through contractors are competitively procured in accordance with County purchasing policies and procedures.

Finding No. 11: Advance Payments

Pursuant to Article VII, Section 10, of the State Constitution, the County may not become a joint owner with, or stockholder of, or give, lend, or use its taxing power or credit to aid any corporation, association, partnership, or person. As noted by the Attorney General in various opinions³, the purpose of this provision is “to protect public funds and resources from being exploited in assisting or promoting private ventures when the public would be at most incidentally benefited.” Section 28.235, Florida Statutes, provides that the CCC can make advance payments on behalf of the County for goods and services pursuant to rules or procedures adopted by the State Chief Financial

³ For example, see Attorney General Opinion No. 2012-26.

Officer (CFO) for advance payment of invoices submitted to State agencies. The CFO established such rules and procedures in the *Reference Guide for State Expenditures*, which provides that advance payments may be made if the payments result in a savings that is equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments are essential to the operations of the agency and the goods or services are available only if advance payment is made.

Our tests of 14 advance payments made during the period May 2010 through May 2012, totaling \$399,885.52 and funded from tourist development taxes or BP grant funds, disclosed 6 advance payments for goods or services, totaling \$118,166.66, that County records did not evidence met the CFO criteria. These included, for example, 4 payments totaling \$80,000 made to local chambers of commerce for tourism-related services that were paid at the beginning of the fiscal years in which the services were provided.

County records supporting many payments made to two advertising and marketing firms were inadequate to determine whether the payments were advance payments. However, based on available supporting documentation at the time of payment and additional documentation subsequently obtained by the County, we noted several advance payments to the firms for which County records did not evidence met the CFO criteria. Further, the County overpaid for, or did not receive, certain services that were paid for in advance. For example, we noted the following:

- The County paid \$24,001 from BP grant funds in advance to one firm for a driver to transport a recreational vehicle to promotional events and for certain expenses associated with the driver's travel costs. The County paid for the driver to provide 123 days of services at \$187 per day plus \$1,000 in expenses. However, a travel schedule provided for our review that County personnel indicated was the only known support for the driver's services showed a potential of only 43 days of services and \$1,000 in expenses, resulting in an overpayment of \$14,960. County personnel indicated the County is attempting to recover these funds.
- The County paid \$38,400 from BP grant funds in advance to one firm for the services of a promotional spokesman. The County paid for the spokesman to provide 32 days of services at \$1,200 per day. However, County records indicated that the spokesman only provided 23 days of services, resulting in an overpayment of \$10,800. County personnel indicated the County is attempting to recover these funds.
- The County paid \$25,000 from tourist development taxes in advance to one firm for a musical group to perform concerts. However, the County subsequently determined that no concerts were performed or were planned in the future, and County personnel indicated the County is attempting to recover these funds.

CCC personnel indicated that they attempted to identify and deny requests for advance payment not authorized by Florida Statutes; however, they did not identify and deny the above requests for advance payment. In addition, the County did not have procedures in place to ensure that advance payments met the CFO criteria and that goods and services paid for in advance were subsequently received or that appropriate amounts were refunded. Notwithstanding legal requirements relating to advance payments, when goods and services are unnecessarily paid for in advance of their receipt, the County is at an increased risk that the goods or services may not be provided, and the County's recourse may be limited should disagreements arise between the County and the vendor. In September 2012, the BCC adopted policies and procedures as part of the TDC's operations and procedures manual that require all advance payments to be specifically approved by the BCC.

Recommendation: The County should continue to strengthen their purchasing procedures to ensure that advance payments are approved and paid only if the payments result in a savings that is equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments are essential to the County's operations and the goods or services being paid for are available only if advance payment is made. Additionally, the County should establish procedures to ensure that goods or services paid for in advance are either subsequently received by the County or a refund of the overpayment is pursued. Further, the County should continue its efforts to recover the questioned payments noted above.

Finding No. 12: Approval of Purchases

County purchasing policies and procedures required that noncontract purchases under \$25,000 be approved by the issuing department head and the Purchasing Director; purchases between \$25,000 and \$50,000 be approved by the issuing department head, the Purchasing Director, and the County Administrator; and purchases in excess of \$50,000 be approved by the BCC. Contract progress payments under \$25,000 were required to be approved by the issuing department head, and contract progress payments over \$25,000 were required to be approved by the County Administrator.

Our test of 45 purchases, totaling \$1.2 million and funded from tourist development taxes or BP grant funds, disclosed 3 purchases (6.7 percent), totaling \$53,730, that were not approved by one or more required employees, contrary to County purchasing policies and procedures. These payments included a \$49,500 payment for production services at beach concerts, a \$2,430 payment for promotional golf caps, and an \$1,800 payment for two tables of ten people at a dinner and silent auction for a charitable organization. According to County personnel, the reasons why the payments were not approved varied. For example, the rigging and production services were not procured through the Purchasing Department but were directly purchased by an employee, contrary to County purchasing policies and procedures. Therefore, the Purchasing Director's approval was not obtained.

We also scanned the payments made to two advertising and marketing firms and noted that the BCC Chairman was permitted to approve certain purchases rather than the County Administrator, contrary to County purchasing policies and procedures. Upon inquiry, the County Administrator indicated that he was unaware of any formal action taken by the BCC specifically authorizing a change in the responsibilities for expenditure approvals, but that there may have been an assumption that the BCC Chairman was authorized to approve the expenditures since the former TDC Executive Director reported directly to the BCC Chairman.

When payments are not approved as required by County purchasing policies and procedures, the County is at an increased risk that it will pay for unallowed or inadequately supported expenditures. In February 2012, the County eliminated the practice of allowing the BCC Chairman to approve expenditures rather than the County Administrator.

Recommendation: The County should ensure that required approvals are obtained for all purchases in accordance with County purchasing policies and procedures.

Finding No. 13: Purchasing Card Controls

The County provided purchasing cards (p-cards) to approved employees in an effort to efficiently and effectively process and expedite low dollar purchases of goods and services, and the County established policies and procedures to provide guidelines on the proper use of these cards. Our review disclosed that improvements were needed in the design and monitoring of County p-card policies and procedures, as follows:

- County p-card policies and procedures required that departments review p-card expenditures to ensure goods and services obtained were necessary and appropriate. However, these policies and procedures did not specify who was required to approve the expenditures. County records did not evidence that the former TDC Executive Director's p-card expenditures were approved by another employee.
- County p-card policies and procedures required the p-card user and reviewer to sign a preprinted statement on monthly p-card expenditure reports certifying that they reviewed the expenditure report, that it correctly reflects the supporting receipts, and that all purchases made were for official County business and in accordance with applicable rules and directives. However, we noted that the preprinted statement did not appear on many of the expenditure reports.

- County p-card policies and procedures required that employees receiving p-cards sign certification and receipt forms documenting that the employees accepted the terms and conditions for the use of the p-cards. Although requested, we were not provided 2 of 17 p-card certification and receipt forms we selected for testing. Of the 15 forms we were provided, 5 forms were dated subsequent to our request, and 5 forms were not dated (i.e., there was no indication that the employees signed the agreements prior to receiving their p-cards).

During the period May 2010 through May 2012, the County paid \$600,000 in p-card expenditures from tourist development taxes or BP grant funds. Our tests of 60 such expenditures, totaling \$37,000, disclosed the following:

- 25 of 60 purchases (41.7 percent), totaling \$18,324.05, were for goods or services not immediately provided to the purchaser (e.g., internet or phone orders), and County records did not evidence that the purchaser subsequently acknowledged that the goods or services were received.
- 28 of 60 purchases (46.7 percent), totaling \$14,680.37, were not supported by detailed receipts or explanations that clearly documented the public purpose of the expenditures. These purchases are included on Exhibit B.

In the absence of an independent review and approval of p-card transactions, certification statements from the p-card user and reviewer, timely completed certification and receipt forms, documentation that goods or services were received, and detailed receipts and explanations as to the purpose of the expenditures, the County is at an increased risk that expenditures may be made that are not in accordance with County p-card policies and procedures or that do not serve an authorized public purpose.

Recommendation: The County should strengthen its p-card policies and procedures to ensure that an independent review and approval is documented for all purchases; that employees and reviewers certify they reviewed the applicable p-card expenditure report, that it correctly reflects the supporting receipts, and that all purchases made were for official County business and in accordance with applicable rules and directives; that p-card certification and receipt forms are timely signed by employees; that employees acknowledge the receipt of goods and services; and that County records evidence the authorized public purpose served by the expenditures.

Travel

Finding No. 14: Travel Expenditures

Section 112.061, Florida Statutes, generally provides travel requirements for public officers, employees, and other authorized persons, and requires that all authorized travelers submit travel voucher forms when submitting travel expenditures for approval and payment. The travel voucher form should state the purpose of the travel. It should also include a certification signed by the traveler indicating the truth and correctness of the claim in every material matter, the travel expenses were necessary and incurred by the traveler in the performance of his or her official duties, the per diem claimed was reduced for any meals or lodging included in the convention or conference registration fees claimed by the traveler, and the voucher conforms in every respect with the requirements of Section 112.061, Florida Statutes. Pursuant to Section 125.0104(9), Florida Statutes, the TDC is also authorized and empowered to make expenditures for transportation, lodging, meals, and other reasonable and necessary items and services for such persons, as determined by the head of the TDC, in connection with the performance of promotional and other TDC duties. Complete and detailed justification for all travel and entertainment-related expenditures made pursuant to Section 125.0104(9), Florida Statutes, are also required to be shown on travel vouchers or attachments to the travel vouchers.

The BCC established various policies and procedures governing travel, including a requirement in the TDC operations and procedures manual that TDC employees and members obtain preapproval for travel. However, CCC personnel indicated they did not routinely verify that travel of TDC employees and members was preapproved. County policies and procedures did not require that travel of other authorized persons (e.g., contracted employees, travel writers, and tour brokers performing promotional and other duties) be preapproved. In the absence of the preapproval of travel, the County is at an increased risk that unauthorized or unnecessary travel expenditures may be incurred.

County personnel classified and recorded \$113,000 in travel expenditures during the period May 2010 through May 2012 paid from tourist development taxes or BP grant funds. As similarly noted in finding No. 22, additional travel expenditures were incorrectly classified and recorded under other object codes. As a result, the total amount of travel expenditures incurred during the period was not readily quantifiable using the County’s accounting records. Our review of selected expenditures recorded as travel noted above, as well as selected misclassified travel expenditures we noted during other testing, indicated that the County paid \$41,225.32 in travel-related expenditures that were not supported by travel vouchers.

In the absence of properly completed and signed travel vouchers, the County is at an increased risk that unallowed or unjustified travel expenditures may be incurred. For example, we noted that the County paid \$1,151.80 in airfare for a candidate interviewing for an open sales position at the convention center. The Director of Human Resources had previously informed the former TDC Executive Director that the County would not pay for these travel costs. However, at the former TDC Executive Director’s direction, the travel costs were subsequently paid by one of the advertising and marketing firms and invoiced back to the County.

Recommendation: The County should strengthen its procedures to ensure the preapproval of travel expenditures for all authorized persons and the use of properly completed and signed travel vouchers to support all travel expenditures and entertainment-related expenditures pursuant to law.

Special Events Grants and Sponsorships

Finding No. 15: Special Events Grants

To increase tourism and the use of lodging facilities in the County, the TDC and TDC Marketing Subcommittee awarded \$341,361.89 in special events grants paid from tourist development taxes or BP grant funds during the period May 2010 through May 2012. These grants were awarded to groups or organizations that planned, coordinated, or managed special events that were expected to benefit area tourism. Examples of special events grants awarded included \$32,000 for the Florida State H.O.G. Rally, \$17,740 for the Emerald Coast Poker Run, and \$2,400 for the Greater Gulf Coast Beer Festival.

The BCC had not developed written policies and procedures addressing the criteria used to award special events grants, the methodology for calculating the amounts of the grants, the persons authorized to approve the grants, or the responsibilities of grant recipients to document that the grants were used for allowable purposes. In practice, the TDC and TDC Marketing Subcommittee awarded the grants in advance of the special events by approving written requests for funding received from groups or organizations. The TDC did not require grant recipients to sign a written agreement acknowledging the terms and conditions of the grants, provide documentation of expenses to evidence that the grants were used for allowable purposes, or provide evidence that the special events were effective in increasing the use of lodging facilities. In the absence of written agreements, the BCC’s legal recourse may be limited should disagreements arise with the grant recipients. In addition, without an accounting of how the grants

were used and the amount of the increase in the use of lodging facilities that resulted from the special events, the County had no assurance that the grants were used for allowable purposes or were effective in increasing the use of lodging facilities.

In September 2012, the BCC adopted special events grants policies and procedures as part of the TDC's operations and procedures manual. These policies and procedures included the criteria for awarding grants, the persons responsible for approving the grants, authorized and unauthorized uses of the grants, and a requirement that the grant recipients subsequently document expenses and the increase in the use of lodging facilities. However, the policies and procedures did not address the methodology for calculating the amounts of the grants or require that the grant recipients sign a written agreement acknowledging the terms and conditions of the grants.

Recommendation: The BCC should continue to strengthen its special events grant policies and procedures by addressing the methodology for calculating the amounts of the grants and requiring grant recipients to sign a written agreement acknowledging the terms and conditions of the grants.

Finding No. 16: Sponsorships

In addition to the special events grants discussed in finding No. 15, the County paid for sponsorships to support various organizations or events. The sponsorships were generally approved by the former TDC Executive Director. However, County records did not evidence the sponsorships were approved by the BCC.

Our review of selected expenditures disclosed \$478,471.95 in sponsorships paid from tourist development taxes or BP grant funds during the period May 2010 through May 2012. Examples of the sponsorships paid included \$10,000 to the Horizons Foundation of Okaloosa County, \$9,000 to the Fisher House of the Emerald Coast, and \$500 to the Fort Walton Beach Rotary Club.

The BCC had not developed written policies or procedures addressing sponsorships, and the purpose of sponsorships was not consistently documented in County records. Sponsorship recipients were not required to sign a written agreement acknowledging the terms and conditions of the sponsorship, provide documentation evidencing how the sponsorship moneys were used, or provide evidence that the sponsorships were effective in achieving their intended purpose. In the absence of written agreements, the BCC's legal recourse may be limited should disagreements arise with sponsorship recipients. In addition, without an accounting of how the sponsorships were used and a means to determine whether the sponsorships were effective in achieving their purpose, the County cannot demonstrate that the sponsorships were used for allowable purposes or were effective in achieving their purpose.

In September 2012, the BCC adopted sponsorship policies and procedures as part of the TDC's operations and procedures manual. These policies and procedures provided that sponsorships of community, civic, cultural, or other organizations may be authorized by the BCC, upon recommendation from the TDC, to promote and attract increased tourism or enhance and develop the use of the convention center. However, the policies and procedures did not address the methodology for calculating the amounts of the sponsorships, address the responsibilities of the sponsorship recipients to document that the sponsorships are used for allowable purposes, or require sponsorship recipients to sign a written agreement acknowledging the terms and conditions of the sponsorships.

Recommendation: The BCC should continue to strengthen its sponsorship policies and procedures by addressing the methodology for calculating the amount of sponsorships, requiring sponsorship recipients to sign a written agreement acknowledging the terms and conditions of the sponsorships, and requiring sponsorship recipients to provide documentation evidencing how the sponsorship moneys were used and that the sponsorships were effective in achieving their intended purpose.

Allowable Uses of Restricted Resources

Finding No. 17: Tourist Development Taxes – Statutory Compliance

As discussed in the Background section of this report, Section 125.0104, Florida Statutes, governs the use of tourist development taxes and indicates the various purposes for which they may be used. This Section further provides that any use of tourist development taxes not expressly authorized is prohibited. During the period May 2010 through May 2012, the County paid \$1,912,095.68 from tourist development taxes to fund a portion of lifeguarding and beach patrol services provided by the City of Destin Fire Department and the Okaloosa County Beach Safety Department. Section 125.0104, Florida Statutes, does not expressly authorize such expenditures as allowable uses of tourist development taxes.

In response to our inquiries, County personnel provided three opinions from legal counsel indicating that tourist development taxes may be used to fund lifeguard and beach patrol services, provided that the BCC makes a legislative determination that the primary purpose of these services is related to either promoting tourism within the County or the improvement or enhancement of beach facilities. However, in Attorney General Opinion No. 90-55, dated July 23, 1990, the Attorney General concluded that tourist development taxes may not be used to fund lifeguarding services or general governmental functions owed to the public at large.

During the period May 2010 through May 2012, the County also used \$564,000 in tourist development taxes to fund a portion of the County’s beach shuttle service. Section 125.0104, Florida Statutes, does not expressly authorize such expenditures as allowable uses of tourist development taxes. As part of its tourist development plan in effect during the period May 2010 through May 2012, the BCC concluded that providing beach shuttle services was a proactive step to reduce seasonal tourism traffic congestion and encourage efficient and environmentally friendly transportation choices, established a permanent and dependable connection between the beaches and adjacent tourist destinations, and was necessary to promote the convention center and provide an alternate mode of access thereto. However, transportation services are a general government function owed to the public at large and, as such, do not appear to be an allowable use of tourist development taxes. Beginning with the 2012-13 fiscal year, the BCC funded the beach shuttle services from other revenue sources.

Recommendation: The County should seek an opinion from the Attorney General as to the allowability of the \$2,476,095.68 of questioned expenditures and, if appropriate based on the Attorney General’s opinion, should restore this amount to the tourist development taxes accounts.

Finding No. 18: BP Grant Funds – Grant Compliance

As discussed in the Background section of this report, the County received funds from BP after the oil spill to help rebuild and promote area tourism, including a \$6,506,013 grant through Florida’s Coastal Northwest Communications Council, Inc. (FCNCC). Pursuant to the grant agreement, these funds were intended to be used for promotion and

awareness building expenditures not already planned or that would not normally be made to promote tourism (i.e., for expenditures to procure goods or services not previously paid with tourist development taxes).

County records supporting many payments made to the two advertising and marketing firms were inadequate to determine whether the payments to the firms were already planned or would normally be made to promote tourism. However, based on available supporting documentation, we noted certain goods and services purchased with the BP grant funds noted above that were for goods or services previously paid for by the County with tourist development taxes. For example, we noted expenditures totaling \$61,000 in routine monthly fees paid to one firm from BP grant funds that were for services previously paid with tourist development taxes. Likewise, we noted expenditures totaling \$56,994 in special events grants paid to one firm from BP grant funds that were previously paid with tourist development taxes. County personnel indicated that the former TDC Executive Director was allowed to use his judgment in determining the funding source for these expenditures. As the above expenditures, totaling \$117,994, were for goods or services previously paid with tourist development taxes, these expenditures represent questioned costs subject to disallowance by the grantor.

Recommendation: **The County should consult with the FCNCC as to the allowability of the \$117,994 in questioned costs.**

Finding No. 19: BP Grant Funds – Grant Compliance and Controls over Debit Card Program

Funds received from BP by the County after the oil spill to help rebuild and promote area tourism included a \$1,371,939 grant through the FCNCC. The BCC approved the use of \$1,000,000 from this grant to conduct the Emerald Coast Money Debit Card Program (Program). The Program provided that 5,000 debit cards, each worth \$200, would be given to guests that paid for a minimum two-night stay at preapproved lodging facilities located in Destin, Fort Walton Beach, Okaloosa Island, Mary Esther, or Cinco Bayou. County records related to the Program indicated that the majority of the debit cards appear to have been issued to guests at lodging facilities as intended. However, we noted deficiencies in the controls over the Program as discussed below.

The Program provided that guests would obtain debit cards by presenting identification and qualifying paid receipts from lodging facilities to the Emerald Coast Visitor's Center. County records indicated that 3,651 debit cards, totaling \$730,200, were issued for this purpose. However, our test of the issuance of 60 of the 3,651 debit cards disclosed that for 6 debit cards (10 percent), totaling \$1,200, including 2 debit cards that were issued to the former TDC Executive Director, supporting documentation did not include a qualifying paid receipt from a lodging facility. For these 6 debit cards, County records did not demonstrate that the debit cards were issued pursuant to the approved Program and, as such, the \$1,200 represents questioned costs subject to disallowance by the grantor.

The former TDC Executive Director controlled the distribution of the remaining 1,349 debit cards, totaling \$269,800, of which 302 debit cards were either not used or County records did not evidence how they were used. However, County records evidenced that 1,047 debit cards were not issued pursuant to the approved Program as follows:

- 1,000 debit cards totaling \$200,000 were issued to an airline company. However, the County did not have a written agreement with the company stating the purpose for which the debit cards were issued.
- 46 debit cards were partially used by individuals, including the former TDC Executive Director, to purchase a variety of goods and services totaling \$6,330.45. These goods and services included such items as furniture and furnishings, lodging, food and drinks, alcoholic beverages, tips, entertainment, gas, sales taxes, and other unspecified items.
- One debit card was used as a prize in a local golf tournament.

County records did not evidence that the above purchases and uses were allowable uses of the grant funds. As such, these purchases and uses totaling \$207,730.45 represent questioned costs subject to disallowance by the grantor.

Recommendation: The County should consult with the FCNCC as to the allowability of the \$207,730.45 in questioned costs.

Finding No. 20: BP Claims and Reimbursements

During the aftermath of the oil spill, BP contracted with the County to provide four land-based medical aid stations for clean-up crews working along the beaches. BP paid the County \$634,041 for these services based on a Medical Services Support Agreement that provided hourly rates to be paid for the various services provided at each station. Our tests of invoices submitted to BP by the County disclosed errors in the rates used and calculations made by County personnel. For example, the County invoiced BP for an ambulance at one of the stations at a rate of \$100 per hour when the agreement provided for a rate of \$50 per hour, resulting in an overcharge of \$27,062.50. County personnel indicated that they used the rate of \$100 per hour since it was the rate listed in the County's emergency medical services fee schedule and was the same rate listed in the agreement for the other stations.

BP also entered into a Deepwater Horizon Funding Agreement (Agreement) with the Florida Division of Emergency Management through which the County could request reimbursements from BP for costs it incurred in responding to the oil spill. The Agreement required the County to include complete documentation, including invoices, checks, and proof of payment with its requests for reimbursement, and subsequent guidelines indicated that BP would generally reimburse the costs of increased or additional public services, response and removal costs, and lost revenues as a direct result of the oil spill. The County received \$1,262,915.71 in reimbursements from BP, of which \$981,447.70 (77.7 percent) related to payments the County made to a contractor that assisted County personnel in responding to the oil spill. We reviewed selected documentation supporting the reimbursements the County received from BP for the payments made to the contractor and noted certain costs that were inadequately supported or were for goods and services not clearly related to increased or additional public services, response and removal costs, or lost revenues. For example, we noted the following:

- The County received reimbursements, totaling \$370,208, for wages paid to the contractor's employees. However, the County did not require the contractor to provide time cards or work logs to support the number of hours used to calculate wages.
- The County received reimbursements for rental fees, totaling \$6,122.36, for boats rented by the contractor. However, the County did not require the contractor to provide invoices from the boat owners to support the rental fee amounts.
- The County received reimbursements, totaling \$3,199.04, for purchases made at restaurants and convenience stores. However, the County did not require the contractor to provide invoices or receipts indicating the items purchased and, in some cases, the person(s) that received or consumed them. As a result, County records did not evidence that the items purchased were necessary and allowable costs related to the response to the oil spill.
- The County received reimbursements, totaling \$5,655.23, for various goods or services for which County records did not evidence were necessary and allowable costs incurred by the contractor in responding to the oil spill. These goods and services included such items as an alcoholic beverage, personal hygiene products, prescription drugs, over-the-counter medications, out-of-state lodging and car rental, and airfare to and from locations outside the County.

County personnel indicated that they obtained the best available supporting documentation for the contractor's expenses under the circumstances, provided that support to BP, and BP approved the expenditures as reimbursable

costs. Although BP reimbursed the County for these expenditures, the above reimbursements, totaling \$385,184.63, were not supported by documentation required by the Agreement.

Recommendation: For future reimbursement agreements, the County should ensure that reimbursement requests are made pursuant to terms of the agreements, including submission of required supporting documentation.

Motor Vehicles

Finding No. 21: Fuel Cards

The County issued fuel cards for use in its vehicles, including those vehicles assigned to the Tourist Development Department and the convention center, and the Fleet Operations Department was responsible for compiling the monthly fuel charges invoiced by vendors and allocating the fuel charges to user departments. User departments were then responsible for reconciling the monthly fuel charges to gas receipts submitted by employees.

During the period May 2010 through May 2012, the Tourist Development Department and the convention center were charged \$24,146.86 for fuel purchased using fuel cards. Our review of these charges and the procedures used by County personnel to ensure the propriety of these charges disclosed the following deficiencies:

- The Fleet Operations Department generated exception reports, by vehicle, to identify unusual fuel consumption. However, the parameters for generating exceptions on these reports were default parameters of the tracking software and were not reasonable. For example, the fuel limits for vehicles assigned to the Tourist Development Department and the convention center ranged from 250 to 400 gallons per day and 900 to 1,050 gallons per week. When such high parameters are used for generating exceptions, the County is at an increased risk that unusual fuel consumption will not be detected.
- All six user department reconciliations of fuel card charges to gas receipts that we reviewed were not signed by the employees that prepared the reconciliations, and County records did not evidence that supervisory personnel reviewed and approved the reconciliations. In the absence of this information, County records did not evidence that the reconciliations were performed or reviewed and approved by an individual that did not use the fuel cards assigned to the departments' vehicles.
- Gas receipts for \$3,672.25 (79.3 percent) of \$4,628.43 in fuel charges that we reviewed were not retained by the user departments. County personnel indicated that the gas receipts may have been lost, destroyed, or not turned in by employees. In the absence of gas receipts, the County cannot demonstrate that fuel charges invoiced by vendors were accurately billed, and user departments cannot demonstrate that fuel costs charged to their departments were accurately allocated.

Recommendation: The County should strengthen its vehicle usage procedures to include more reasonable fuel consumption parameters, the effective use of fuel card exception reports and user department reconciliations of fuel charges to gas receipts, and the retention of all gas receipts by user departments.

Accounting Controls

Finding No. 22: Classification and Reporting of Expenditures

Section 218.32, Florida Statutes, requires that local government reporting entities submit annual financial reports to the Florida Department of Financial Services (DFS). Section 218.33, Florida Statutes, provides that the DFS shall make reasonable rules and regulations regarding uniform accounting practices and procedures by local governmental

entities, including a uniform classification of accounts, as it considers necessary to assure the use of proper accounting and fiscal management techniques. To that end, the DFS developed a *Uniform Accounting System Manual for Florida Counties (Manual)* to be used as the standard for classifying and recording financial information. The *Manual* provides for expenditures to be recorded and reported using object (e.g., personnel expenses, operating expenses, capital outlay) and sub-object (e.g., salaries and wages, professional services, machinery and equipment) codes to identify the types of the expenditures.

Our tests of 60 purchasing card transactions, totaling \$37,000 and funded from tourist development taxes or BP grant funds, disclosed 5 transactions (8.3 percent), totaling \$4,180.68, that were incorrectly classified and recorded by object or sub-object codes. Additionally, County records supporting many payments made to the two advertising and marketing firms were inadequate to determine whether the payments were classified and recorded correctly. However, based on available supporting documentation at the time of payment and additional documentation subsequently obtained by the County, we noted several payments to the firms that were incorrectly classified and recorded by object or sub-object codes. Examples of payments that were incorrectly classified and recorded included the following:

- The County purchased two recreational vehicles for a total of \$94,766. The recreational vehicles were purchased for the TDC to use in advertising projects and marketing campaigns. These expenditures were incorrectly classified and recorded as operating expenditures (contracted services – public relations) rather than as capital outlay expenditures (machinery and equipment).
- The County purchased an exterior marquee for the convention center for \$81,237.50 that was incorrectly classified and recorded as an operating expenditure (contracted services – advertising) rather than as a capital outlay expenditure (infrastructure).
- The County purchased two televisions for a total of \$2,208.88. The televisions were purchased to be used in the recreational vehicles noted above. These expenditures were incorrectly classified and recorded as operating expenditures (motor vehicle repair and maintenance) rather than as capital outlay expenditures (machinery and equipment).

County personnel indicated that payments made to the two advertising and marketing firms were often coded to contracted services – advertising regardless of the purpose of the payments. When expenditures are not correctly classified and recorded in the accounting records, management may draw incorrect conclusions about the activities funded from restricted resources such as tourist development taxes and BP grant funds, and their ability to make informed decisions based upon these records may be compromised.

Recommendation: The County should strengthen its procedures to ensure that expenditures are properly classified and recorded in accordance with the *Manual*.

Electronic Funds Transfers

Finding No. 23: Controls Over Electronic Funds Transfers

Section 668.006, Florida Statutes, requires the head of each agency to implement control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. The County used electronic funds transfers (EFTs) to make certain types payments, including payments to vendors and banking institutions, and had established a funds transfer agreement with a bank to provide these services. County records indicated that 13 EFTs, totaling \$15.5 million, were made during the period May 2010

through May 2012 that involved tourist development taxes or funds received from BP. Our review disclosed that the County needed to strengthen its controls over EFTs as follows:

- The BCC had not developed written policies and procedures regarding the authorization and processing of EFTs, contrary to law.
- Employees that could initiate wire transfers also had the ability to record journal entries in the accounting system, allowing them both access to County assets and the accounting records for these assets.
- The funds transfer agreement with the bank allowed authorized users designated by the CCC to electronically initiate EFTs without the approval of another employee before the funds were transferred.
- The funds transfer agreement with the bank did not restrict the locations where County funds could be transferred, allowed nonrepetitive EFTs up to \$20,000,000, and allowed unlimited dollar amounts of repetitive EFTs.
- The funds transfer agreement with the bank had not been updated to reflect changes in CCC personnel and authorized an employee who terminated with the CCC in May 2005 to initiate and approve EFTs.

While our tests did not disclose any EFTs that were made for unauthorized purposes, such tests cannot substitute for management’s responsibility to establish effective internal controls. Without written policies and procedures and effective controls governing EFT activities, the County is at an increased risk that unauthorized transfers could occur and not be timely detected. In September 2012, the CCC updated its funds transfer agreement with the bank to delete the terminated employee noted above.

Recommendation: The BCC should develop written policies and procedures addressing EFTs as required by Section 668.006, Florida Statutes, including providing for an adequate separation of duties over access to County assets and the related accounting records, and documenting independent approvals before the funds are transferred. In addition, the CCC should revise its funds transfer agreement with the bank to address the deficiencies noted above and timely update its funds transfer agreement with the bank when changes in authorized personnel occur.

Information Technology Controls
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Finding No. 24: Access Controls

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, creation, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, add, or delete data. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their area of responsibility. Periodically reviewing the appropriateness of IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job responsibilities.

As part of our review of the County’s expenditure payment process, we noted certain deficiencies in access controls as follows:

- All employees in the CCC’s Finance Department, including accounts payable and payroll employees, had the ability to record journal entries. However, CCC procedures did not provide for an independent review of all journal entries recorded in the accounting system to determine that the journal entries were properly authorized. County IT personnel indicated that, due to software limitations, an employee’s ability to record journal entries could not be limited without also limiting the employee’s ability to view certain accounting records.

- Two CCC payroll employees and the CCC’s Financial Services Manager had the ability to record pay rate and other changes in the payroll system. These employees also had the ability to process payroll transactions and print payroll checks. However, CCC procedures did not provide for an independent review of all changes recorded in the payroll system to determine that the changes were properly authorized by the Human Resources Department.
- Two CCC accounts payable employees had the ability to add new vendors and make other changes in the master vendor file. These employees also had the ability to process and pay vendor invoices, and print and distribute checks to vendors. However, CCC procedures did not provide for an independent review of all changes made to the master vendor file to determine that the changes were properly authorized by the Purchasing Department.

We also noted that end-user departments were not routinely required to review employee access privileges to County resources (e.g., accounting records, payroll system data, master vendor files) to determine whether these access privileges were necessary and appropriate given an employee’s job responsibilities. Without such reviews, unnecessary or incompatible access privileges may not be timely detected and addressed by the County, increasing the risk of unauthorized disclosure, modification, creation, or destruction of data and IT resources.

Recommendation: The County should strengthen its procedures to include the periodic review of access privileges granted to employees and timely remove or modify unnecessary or incompatible access privileges detected.

Public Records

Finding No. 25: TDC and TDC Subcommittee Meeting Minutes

Section 286.011, Florida Statutes, commonly referred to as the Sunshine Law, requires that minutes of public board or commission meetings be promptly recorded and open to public inspection. Florida’s *Government-in-the-Sunshine Manual*, compiled by the Florida Attorney General’s Office, further provides that advisory boards and committees created by public agencies may be subject to the Sunshine Law, even though their recommendations are not binding upon the entities that create them. When an advisory board or committee has been delegated decision-making authority as opposed to mere information-gathering or fact-finding authority, their meetings must be open to public scrutiny, regardless of the review procedures eventually used by the traditional governmental body.

The TDC is responsible for advising the BCC on the implementation of its tourist development plan, including making recommendations to the BCC regarding the effective use of tourist development taxes. In carrying out its responsibilities, the TDC established two standing subcommittees that met during the period May 2010 through May 2012. The Promotion Review Subcommittee met periodically until October 2010 when it was disbanded. The Marketing Subcommittee was then formed and began meeting in May 2011. The stated responsibilities of both subcommittees included reviewing and recommending advertising and marketing consultants to the TDC and reviewing and recommending specific tourism marketing proposals presented to the TDC by private industry and nonprofit organizations. As discussed in finding No. 15, the TDC and TDC Marketing Subcommittee also awarded special event grants to selected groups or organizations. Based on their responsibilities, both the TDC and the TDC subcommittees are subject to the Sunshine Law.

The minutes of the TDC and TDC subcommittee meetings were generally recorded, approved at subsequent meetings, and electronically stored by the County. However, our review of the minutes of the TDC and TDC subcommittee meetings disclosed that County procedures for maintaining official records of the meetings needed improvement. For example, we noted that minutes were not recorded for a TDC meeting and a TDC subcommittee

meeting held on December 8, 2010, and October 28, 2010, respectively. We also noted that the minutes of the remaining meetings were not signed by the committee or subcommittee chairman or the employee who recorded the minutes. In addition, we noted several meetings for which two versions of the minutes were retained by the County. The County’s legal counsel indicated that the different versions represented draft and final versions of the minutes, and a specific file for the final approved and official meeting minutes of the TDC and TDC subcommittees was not maintained.

In the absence of meeting minutes signed by the TDC or TDC subcommittee chairman and the employee who recorded the minutes, the County cannot demonstrate that the minutes made available for public inspection represent the official record of the discussions and actions taken at the meetings. In September 2012, the BCC adopted policies and procedures regarding TDC and TDC subcommittee minutes as part of the TDC’s operations and procedures manual. These policies and procedures require written minutes to be maintained for all TDC and TDC subcommittee meetings and an audio recording of each TDC meeting to be made and retained as a public record.

Recommendation: The County should continue to strengthen its procedures for maintaining official minutes of the TDC and TDC subcommittees by recording minutes for all meetings and requiring that the final approved minutes made available for public inspection be signed by the TDC or TDC subcommittee chairman and the employee who recorded the minutes.

RELATED INFORMATION

The State Attorney, 1st Judicial Circuit, and several law enforcement agencies, including the Okaloosa County Sheriff’s Office, the Florida Department of Law Enforcement, and the Federal Bureau of Investigation, are investigating alleged improprieties involving the TDC and the former TDC Executive Director. At the close of our audit fieldwork, these investigations were ongoing.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. This audit was conducted pursuant to Section 11.45(3)(a), Florida Statutes, based on a May 15, 2012, request by the then Senate President-designate.

We conducted this operational audit from May 2012 to September 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management’s performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.

- Examine internal controls designed and placed in operation to promote and encourage the achievement of management’s control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management’s internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit’s findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of various records and transactions occurring from May 1, 2010, through May 31, 2012, and selected actions taken subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit C.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Organizational oversight.	Reviewed County controls related to the receipt, use, and monitoring of tourist development taxes and funds received from BP.
Fraud controls and control risk assessments.	Reviewed the County’s anti-fraud program and determined whether the County had performed recent fraud and control assessments to identify and address potential risks.
Public records.	Examined BCC, TDC, and TDC subcommittee meeting minutes for evidence of compliance with selected Sunshine Law requirements (e.g., preparation and retention of official minutes).
Competitive procurement.	Examined County records relating to the procurement of goods and services (including professional services) from tourist development taxes and BP grant funds to determine compliance with laws, rules, and County purchasing policies and procedures.
Contract design, monitoring, and preauditing of contract invoices.	Reviewed contracts to determine whether they were adequately designed to protect the interests of the County, and examined County records relating to contract payments from tourist development taxes and BP grant funds to determine whether the payments served an authorized public purpose and were properly approved; adequately supported; accurately classified; reasonable, necessary, and allowable uses of restricted resources; and made in accordance with laws, rules, County purchasing policies and procedures, and the terms of the contracts.
Purchasing card transactions.	Tested purchasing card transactions from tourist development taxes and BP grant funds to determine whether the payments served an authorized public purpose and were properly approved; adequately supported; accurately classified; reasonable, necessary, and allowable uses of restricted resources; and made in accordance with laws, rules, and County purchasing policies and procedures.
Travel expenditures.	Tested travel expenditures from tourist development taxes and BP grant funds to determine whether the payments served an authorized public purpose and were properly approved; adequately supported; accurately classified; reasonable, necessary, and allowable uses of restricted resources; and made in accordance with laws, rules, and County purchasing policies and procedures.
Salary and other expenditure transactions.	Tested salary and other expenditure payments from tourist development taxes and BP grant funds to determine whether the payments served an authorized public purpose and were properly approved; adequately supported; accurately classified; reasonable, necessary, and allowable uses of restricted resources; and made in accordance with laws, rules, and County purchasing policies and procedures.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

BP claims and reimbursements.	Examined supporting documentation for claims submitted by the County to BP for reimbursement of expenditures related to the oil spill to determine whether the expenditures were properly supported and allowable under the terms of the reimbursement agreements.
Use of BP grant funds.	Examined supporting documentation relating to the expenditure of BP grant funds to determine whether the County established adequate controls over the use of grant funds and complied with grant provisions and restrictions.
Electronic funds transfers.	Reviewed County procedures related to electronic funds transfers to determine whether controls were adequate and tested supporting documentation to determine whether selected electronic funds transfers were properly authorized and supported.
Journal entries.	Tested journal entries involving tourist development taxes and funds received from BP to determine whether the entries were properly approved, adequately supported, and allowable uses of restricted resources.
Motor vehicles.	Reviewed County policies and procedures relating to vehicle usage and fuel cards to determine whether controls were adequate to ensure County assets were properly safeguarded.
IT controls.	For selected CCC employees, determined the appropriateness and necessity of access privileges to IT resources related to journal entries, payroll records, and the master vendor file.

**EXHIBIT B
INADEQUATELY SUPPORTED PURCHASING CARD EXPENDITURES
FOR THE PERIOD MAY 1, 2010, THROUGH MAY 31, 2012**

Date	Vendor	Description of Expenditure per Supporting Documentation	Funding Source	Inadequately Supported Amount	Deficiency in Support (Type)
10/26/11	Sams Internet	Two 46" TVs for RVs	BP Grant	\$ 2,208.88	A
01/13/12	A Storage Solutions of Destin	Unit 1012 rental to 7/12	TDT - 2nd and 5th Percents	1,100.00	A
01/13/12	A Storage Solutions of Destin	Rent storage unit 1010	TDT - 2nd and 5th Percents	1,100.00	A
02/25/11	Toomey's Mardi Gras	Mardi Gras parade supplies	TDT - 2nd and 5th Percents	1,022.40	A
08/23/10	Marina Café	IEDC hospitality dinner	TDT - 2nd and 5th Percents	908.40	B
12/12/11	Sams Internet	46" TV for Destin TDC	TDT - 2nd and 5th Percents	898.00	A
10/15/10	Wal-Mart	47" TV	TDT - 2nd and 5th Percents	798.00	A
02/24/11	Sears	Refrigerator	TDT - 2nd and 5th Percents	763.46	A
01/12/12	Oriental Trading Company	Mardi Gras parade supplies	TDT - 2nd and 5th Percents	704.00	A
12/12/11	Sams Internet	42" TV and mounting bracket	TDT - 2nd and 5th Percents	656.79	A
12/08/11	National Pen	Holiday cards	TDT - 3rd Percent	575.90	A
12/14/11	Wine Country Gift Baskets	Client gift baskets	TDT - 3rd Percent	569.43	A
01/11/12	A Storage Solutions of Destin	Unit R126 rental to 6/11/12	TDT - 2nd and 5th Percents	550.00	A
03/20/12	Epromos	Client thank you gifts	TDT - 3rd Percent	470.16	A
03/16/12	Target	Public relations (gift cards)	TDT - 3rd Percent	373.00	A
01/12/12	Toomey's Mardi Gras	Mardi Gras parade supplies	TDT - 2nd and 5th Percents	349.00	A
10/26/11	Electric Motor Repair Service	New motor, seal, gasket, and o-ring	TDT - 2nd and 5th Percents	310.00	A
12/15/11	Publix	I-Tunes cards for office laptops and assorted chocolates for business affiliates	TDT - 2nd and 5th Percents	309.98	A
11/17/11	Old Time Pottery	Kitchen and cleaning supplies	TDT - 2nd and 5th Percents	199.80	A
10/26/11	Sams Internet	Compact refrigerators	TDT - 2nd and 5th Percents	192.44	A
12/13/11	The Trophy Center, Inc.	Awards	TDT - 2nd and 5th Percents	149.50	A
04/26/11	Waterworx Car Wash	Purchase (Wheels n Wax, Detail Upcharge, and Interior Detail)	TDT - 2nd and 5th Percents	104.99	A
09/12/11	Culligan Water Solutions	Bottled water service	TDT - 2nd and 5th Percents	80.95	A
10/22/10	Camelia City Florist	ACAE flowers for Ralph Stacy's funeral	TDT - 2nd and 5th Percents	80.00	A
04/24/12	Edible Arrangements	Warren Gourley	TDT - 2nd and 5th Percents	72.00	A
08/12/11	Staples	Coffee, creamer, sports bottles	TDT - 2nd and 5th Percents	63.96	A
07/07/10	Anglers Beachside Grill	Business lunch	TDT - 2nd and 5th Percents	52.34	A,B
08/31/10	Waterworx Car Wash	Purchase	TDT - 2nd and 5th Percents	16.99	A
Total Inadequately Support Purchasing Card Expenditures				\$14,680.37	
Deficiencies:					
A – Supporting documentation did not indicate how the expenditure served an authorized purpose or was an allowable use of the restricted resource.					
B – Supporting documentation did not indicate the names of the people attending the event. Consequently, it was not evident that this expenditure served an authorized purpose or was an allowable use of the restricted resource.					

EXHIBIT C
MANAGEMENT'S RESPONSE



County Administrator's Office

State of Florida

January 8, 2013

David W. Martin
Auditor General
Local Government Audits/Section 342
111 West Madison Street
Tallahassee, FL 32399-1450

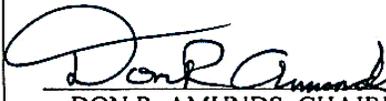
Re: Okaloosa County Board of County Commissioner' Oversight of
the Tourist Development Council and Use of Tourist Development
Taxes and Funds Received From British Petroleum

Dear Mr. Martin:

In response to the preliminary and tentative findings and recommendations provided by your office, enclosed is a joint response from the Okaloosa County Board of County Commissioners and the Clerk of Court for Okaloosa County. The joint response contains written statements of explanation concerning each of the findings and corrective actions taken and proposed.

We appreciate the time that you and your staff have spent and the thoroughness demonstrated during the audit process.

If you require any further information, please do not hesitate to contact us through the County Administrator's Office at 850-651-7515.


DON R. AMUNDS, CHAIRMAN
BOARD OF COUNTY COMMISSIONERS




DON W. HOWARD, CLERK
CLERK OF COURT



Enclosures

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(850) 651-7515 • FAX: (850) 651-7551
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**OKALOOSA COUNTY'S RESPONSE TO THE PRELIMINARY AND TENTATIVE AUDIT
FINDINGS AND RECOMMENDATIONS ON THE OVERSIGHT OF THE TOURIST
DEVELOPMENT COUNCIL AND USE OF TOURIST DEVELOPMENT TAXES AND FUNDS
RECEIVED FROM BRITISH PETROLEUM**

The Board of County Commissioners is in receipt of the Preliminary and Tentative Audit Findings and Recommendations which may be included in the operational audit of the Auditor General on the Oversight of the Tourist Development Council (TDC) and use of Tourist Development Taxes and funds received from British Petroleum. Please find the Response of the Board of County Commissioners (BCC) to the Preliminary and Tentative Findings and Recommendation. As several of the Preliminary and Tentative Findings relate to the operations of the office of the Clerk of the Court, that office has separately responded to some of these Findings.

ORGANIZATIONAL OVERSIGHT

Finding No. 1: The Board of County Commissioners (BCC) did not establish annual budgets for expenditures from restricted resources at the level the resources were restricted, or project budgets for each advertising project and marketing campaign, to ensure that available resources were not overspent.

Recommendation: The BCC should adopt budgets to control expenditures from restricted resources at the level of their restriction and by each specific project funded by these restricted resources. Corresponding budgets should be incorporated into the accounting records to provide for the effective control of expenditures, and the BCC and TDC should perform periodic budget-to-actual comparisons. The CCC should reject invoices presented for payment when sufficient authorized funds are not available to pay for them.

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

Initially, under the Constitution of the State of Florida, the Clerk of the Court and the BCC are independent constitutional offices. Though the Clerk, under Article V, section 16 of the Florida Constitution is empowered to serve as the "ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds," the operation of his office is not subject to the direction of the BCC. The Clerk's constitutional grant of authority vests him with the independent authority within these areas of responsibility. Therefore, specific issues raised in regards to the functioning of the Clerk's office either have been addressed or will be the subject of future coordination between the respective constitutional bodies.

Further, as part of the corrective action already taken by the County⁴, on September 18, 2012, the BCC has adopted Ordinance No. 12-21 which amended the Tourist Development Plan of Okaloosa County and it has substantially revised the Operations and Procedures Manual governing the operation

⁴ Prior to the formal amendment of the Operations and Procedures Manual and Ordinance in September of 2012, the County implemented various policy changes as an interim measure at its May 15, 2012 meeting.

of the TDC and the Tourist Development Department (a copy of Ordinance No. 12-21 and the amended Operations and Procedures Manual are attached as Attachment “A” and “B”, respectively). The intent of these amendments was to provide clear delineation as to the respective uses of the various pennies absent subsequent action by the BCC.

Additionally, as part of the amendments to the Operations and Procedures Manual, the BCC has specifically mandated that project level budgets be prepared and submitted to the BCC to control expenditures and ensure that available resources are spent in accordance with the BCC’s intent and within the applicable restrictions. (See D.200). The County will also review the viability of establishing budget control expenditures from the various restricted revenues provided that it would be consistent with the provisions of Chapter 129, Florida Statutes.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurance that the various restricted revenues are being expended in conformity with the requirements of Florida Law and the County’s ordinances.

CLERK’S RESPONSE: In accordance with the corrective action already taken by the County in changing the TDC Ordinance, Tourist Development Plan and Operations and Procedures Manual, the Clerk will account for the Tourist Development Restricted balances at the levels of restriction as identified by the recommended budgetary process. The Clerk, in accordance with these corrective actions and the increased level of delineation, will reject invoices without sufficient authorized funds available.

Finding No. 2: The Tourist Development Council (TDC) and TDC subcommittees performed duties that were not of an advisory nature, contrary to law.

Recommendation: The BCC should implement policies and procedures to ensure that the TDC performs only those duties authorized by Section 125.0104(4)(e), Florida Statutes, and County ordinances.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has adopted Ordinance No. 12-21 which amended the Tourist Development Plan of Okaloosa County and it has substantially revised the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. These amendments, among other things, reestablished the advisory nature of the TDC and its subcommittees and limited their functions to those mandated under Section 125.0104, Florida Statutes. (See A.400). The amendments established new controls on the exercise of the responsibilities of the TDC and eliminated any authority for it to perform functions outside of the advisory role contemplated by the Statute.

Additionally, as to the prior practice of the TDC to approve expenditures, the amendments to the Operations and Procedures Manual also set forth a procedure for the approval of expenditures. Those amendments require that all expenditures be in conformity with established policies and utilizing the procedures of the County’s Purchasing Policy (See D.400). Such approvals for the expenditure of funds may not be given by either the TDC or the subcommittees.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurance that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policies and Florida Statutes.

Finding No. 3: The TDC did not continuously review all expenditures of tourist development taxes, contrary to law.

Recommendation: The TDC should continue to strengthen its monitoring controls by ensuring that it timely receives and reviews detailed reports of expenditures of tourist development taxes as required by Section 125.0104(4)(e), Florida Statutes.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has adopted Ordinance No. 12-21 which amended the Tourist Development Plan of Okaloosa County and it has substantially revised the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. To facilitate the statutory responsibilities of the TDC to review and oversee expenditures, various amendments were included to provide more safeguards. Among these was that the TDC would initially participate in the establishment of proposed expenditures in the review of the budget and the marketing plan. (See D.200). Further, the amendments provide a post expenditure monitoring process whereby both the TDC and the BCC would be provided quarterly summaries of the actual expenditures. (See A.400).

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurance that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

Finding No. 4: The County purchased goods and services from companies or organizations that were affiliated with members of the BCC, TDC, or a TDC subcommittee, contrary to law.

Recommendation: The BCC should implement policies and procedures to ensure that future purchases of goods and services are not made from vendors in which a potential conflict of interest exists or that waivers of the requirements of Sections 112.313(3) and 112.313(7), Florida Statutes, as they relate to TDC and TDC subcommittee members, are granted and documented in accordance with Section 112.313(12), Florida Statutes.

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

Without concluding that each of the examples provided by the Auditor General in its Preliminary and Tentative Findings actually constituted violations of Section 112.313, Florida Statutes, the County agrees that inadequate controls existed which would address potential conflicts of interests.

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has adopted Ordinance No. 12-21 which amended the Tourist Development Plan of Okaloosa County and it has substantially revised the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Several of the amendments to the plan directly relate to the issue of potential conflicts of interests. Initially, the revisions to the Manual specifically set forth

guidelines for the approval of special events and sponsorships. (See G.000 - G.600). The revisions also required that committee members with conflicts of interest comply with the provisions of Section 286.012 and Chapter 112, Florida Statutes. Further, the County's Purchasing Manual, which is incorporated into the Operations and Procedures Manual, requires the submittal of conflict of interest disclosures as part of the process.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurance that adequate controls are provided to avoid conflicts of interests and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

FRAUD CONTROLS AND CONTROL RISK ASSESSMENTS

Finding No. 5: The BCC had not adopted a fraud response plan, and the County did not perform periodic fraud risk assessments or establish action plans to implement and monitor fraud controls.

Recommendation: The BCC should strengthen its anti-fraud program by adopting a fraud response plan, requiring periodic fraud risk assessments, and developing action plans to implement and monitor fraud controls.

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

Okaloosa County will review and consider the amendment of its current code of conduct and whistleblower policies to include a written fraud response plan that addresses investigation protocols and guidance on reporting known or suspected fraud to the appropriate authorities.

The County will review and consider the implementation of an annual fraud risk assessment and fraud controls monitoring. In furtherance of this monitoring, the County has researched and determined the Association of Certified Fraud Examiners has a Fraud Risk Assessment tool that can be used by Okaloosa County to strengthen its anti-fraud program. The County will consider the implementation of this or similar fraud assessment tools which can be utilized to enhance its fraud controls.

Finding No. 6: The County did not perform and document periodic control risk assessments over the activities of collecting, accounting for, and disbursing restricted resources to identify and respond to identified control risks.

Recommendation: The County should perform and document periodic control risk assessments over the activities of collecting, accounting for, and disbursing restricted resources, including tourist development taxes and funds received from BP.

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

The County will review and consider the implementation of a formalized control risk assessment for the County as a whole, with particular emphasis on collecting, accounting and disbursing all restricted resources of the County, including tourist development taxes.

PROCUREMENT AND PAYMENTS TO VENDORS

Finding No. 7: The County did not consistently follow prescribed policies and procedures relating to the competitive procurement of goods and services, including the selection of two advertising and marketing firms.

Recommendation: The County should ensure that purchases are procured in accordance with County policies and procedures. In addition, the County should strengthen its procurement procedures to ensure that the selection process for the acquisition of professional services is documented and services are acquired pursuant to County purchasing policies and procedures. These procedures should require maintenance of documentation evidencing the basis for decisions made by selection committees and the signing of ranking sheets by each selection committee member.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Those amendments require that all expenditures be in conformity with established policies and utilize the procedures of the County's Purchasing Policy (See D.400). Additionally, all functions determined by the Director and Council to be handled by contract with third parties are required to be entered into in accordance with the County's standard procedures, including the issuance of Requests for Qualifications (RFQ's) and/or Requests for Proposals (RFP's) required under County procedures (See E.100).

On July 23, 2012, the County issued RFQ # TDC 47-12, which sought proposals to provide marketing, advertising, public relations services for the Tourist Development Department. Pursuant to County policies, a selection committee reviewed and ranked 17 proposals which were submitted in response to the RFQ. The selection committee's rankings were presented to the BCC at its December 4, 2012 meeting and it approved entering into an Agreement with a new entity to provide these services. The policies and procedures of the County were followed during this process and the documentation evidencing the decision was maintained consistent with the County's policy and the Recommendation of the Auditor General. Additionally, the Agreement entered into with the new entity requires compliance with the County's Purchasing Manual, Contract/Leases Policies and Procedure Manual, and Operations and Procedures Manual of the TDC and Tourist Development Department.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurance that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

Finding No. 8: The County negotiated and entered into contracts that did not contain adequate provisions to effectively protect the County's interests.

Recommendation: The County should strengthen its procurement procedures to ensure that all contracts include provisions that specify the types and amounts of contractor expenses for which the contractor is to be reimbursed and require the contractor to submit sufficiently detailed invoices to allow for an effective County preaudit. Additionally the contracts for advertising and marketing services firms should include provisions to competitively procure goods and services in accordance with County

purchasing policies and procedures, and require the firms to submit cost estimates, obtain BCC approval prior to starting work on an advertising project or marketing campaign, and state the advertising project or marketing campaign with which invoices are associated.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Those amendments require that all expenditures be in conformity with established policies and utilize the procedures of the County's Purchasing Policy (See D.400). Additionally, all functions determined by the Director and Council to be handled by contract with third parties are required to be entered into in accordance with the County's standard procedures, including the issuance of Requests for Qualifications (RFQ's) and/or Requests for Proposals (RFP's) required under County procedures (See E.100).

Additionally, the County has recently entered into an Agreement with a new entity to provide marketing and advertising services to the Tourist Development Department. That Agreement incorporates significant new controls over the provision of these services which contains many safeguards to protect the County's interest, including but not limited to the following:

- 3.3 The CONTRACTOR shall submit copies of effective contracts, insertion orders, a recapitulation of credits and debits affecting previously submitted statements or invoices and substantiating bills, and tear sheets, with support materials or other proof of publications for invoices presented for payment.
- 3.4 It is mutually agreed and understood that payments to the CONTRACTOR for approved expenditures shall be made only upon submission to the COUNTY of itemized copies or original invoices. All statements or invoices for fees for services rendered submitted by the CONTRACTOR to the COUNTY shall be submitted in detail sufficient for proper pre-audit and post-audit thereof to insure that the work performed, expense incurred, or service rendered actually took place, was properly authorized and that the correct amount has been charged. Invoices submitted by the CONTRACTOR for services performed under this Agreement shall be itemized such that the description of services performed is consistent with the description included in the scope of services attached hereto as Attachment A.
- 3.5 No invoice will be processed without the executed task order, purchase order or contract/lease payment approval form approved by the respective County official(s). No invoice will be approved unless a copy of the actual invoice from the vendor accompanies the invoice reflecting the acquisition of goods/services.
- 5.3 BID PROCESS. The CONTRACTOR shall receive and maintain copies of the three (3) bids, required by the COUNTY, for each item with a cost in excess of \$2,500 which is purchased on behalf of the COUNTY. In those instances where competitive pricing cannot be obtained, a sole source purchase data sheet must be completed and attached to the requisition. Such requests must meet both of the following criteria:

- It is the only item that will produce the desired results (or fulfill the specific need).
- The item is available from only one source of supply.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurance that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes. Further, future agreements entered into by the County will provide necessary protections of its interests.

Finding No. 9: The County did not perform an adequate review or preaudit of invoices submitted by two advertising and marketing firms, including a comparison of payment requests to the provisions of contracts. As a result, the County paid two advertising and marketing firms \$12.1 million without obtaining adequate documentation supporting the goods or services received, including payments of several invoices that incorrectly or inadequately described the actual goods or services purchased.

Recommendation: The County should continue to strengthen its monitoring and preaudit procedures to ensure that contract provisions are properly monitored and payments are supported by adequate documentation to allow for an effective preaudit. The County should also continue its efforts to obtain supporting documentation for payments made to the two advertising and marketing firms. In addition, the BCC, in consultation with its legal counsel, should determine whether the County is entitled to recover any questioned billings, and take appropriate action to recover such billings. Finally, the BCC should adopt written policies and procedures that provide guidance on the reasonableness and necessity of TDC expenditures.

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

Initially, under the Constitution of the State of Florida, the Clerk of the Court and the BCC are independent constitutional offices. Though the Clerk, under Article V, section 16 of the Florida Constitution is empowered to serve as the “ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds,” the operation of his office is not subject to the direction of the BCC. The preaudit review of expenditures is within the constitutional grant of authority of the Clerk. Therefore, specific issues raised in regards to the functioning of the Clerk’s office either have been addressed or will be the subject of future coordination between the respective constitutional bodies.

The County acknowledges that sufficient controls were not in place to assure adequate contract monitoring and pre-auditing of invoices. As part of the corrective action already taken by the County, on September 18, 2012, the BCC substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Those amendments require that all expenditures be in conformity with established policies and utilizing the procedures of the County’s Purchasing Policy (See D.400). This includes the specific requirement that all expenditure approvals are consistent with the authority levels of the various positions.

Additionally, to assist the preaudit review of expenditures, the amended Manual also requires that no invoice will be processed through the Clerk's Office without the executed task order and/or purchase order approved by the respective County officials. Further that no invoice will be approved unless the actual invoice from the vendor accompanies the invoice reflecting the acquisition of the goods or services. (See E.600).

As to questionable billings or expenditures, the County has been reviewing numerous expenditures which were inappropriate or which were made with limited documentation. Efforts have been instituted by the County to seek reimbursement for several of these expenditures and this effort is anticipated to continue once law enforcement finalizes its investigations.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurance that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

CLERK'S RESPONSE: In accordance with the corrective action already taken by the County in regard to the County procurement and contract process and the amended Operations and Procedures Manual of the TDC, the Clerk will perform its invoice preaudit function in such a way that will ensure full compliance with contractual provisions and appropriate documentation. In connection with these corrective actions, especially regarding the advertising contract, the increased level of invoicing of these services provided will more clearly identify the goods and services acquired.

Finding No. 10: The County did not ensure that goods or services acquired through two advertising and marketing firms were competitively procured.

Recommendation: The County should ensure that goods and services purchased through contractors are competitively procured in accordance with County purchasing policies and procedures.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Those amendments require that all expenditures be in conformity with established policies and utilize the procedures of the County Purchasing Policy (See D.400). Additionally, all functions determined by the Director and Council to be handled by contract with third parties are required to be entered into in accordance with the County's standard procedures, including the issuance of Requests for Qualifications (RFQ's) and/or Requests for Proposals (RFP's) required under County procedures (See E.100).

Additionally, the County has recently entered into an Agreement with a new entity to provide marketing and advertising services to the Tourist Development Department. That Agreement incorporates significant new controls over the provision of these services and requires competitive pricing where appropriate. (See Response to Finding No. 8).

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurances that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

Finding No. 11: The County paid for certain goods and services in advance of their receipt, including certain goods and services acquired through two advertising and marketing firms, contrary to law and the State Constitution. Some services for which the County paid in advance were not subsequently provided.

Recommendation: The County should continue to strengthen their purchasing procedures to ensure that advance payments are approved and paid only if the payments result in a savings that is equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments are essential to the County's operations and the goods or services being paid for are available only if advance payment is made. Additionally, the County should establish procedures to ensure that goods or services paid for in advance are either subsequently received by the County or a refund of the overpayment is pursued. Further, the County should continue its efforts to recover the questioned payments noted above.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Those amendments and the Agreement recently entered into with the new entity to provide advertising and marketing services to the Tourist Development Department, specifically prohibit the advancement of funds unless approved by the BCC. (See E.700).

Further as to those cited payments where advance payments were made but the services were apparently not provided, the County has been reviewing these and numerous other expenditures which reflect the possibility of inappropriate payments. Efforts have been instituted by the County to seek reimbursement for several of these expenditures, including those cited in this Finding. This effort is anticipated to continue once law enforcement finalizes its investigations.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurances that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

CLERK'S RESPONSE: In accordance with the corrective action already taken by the County, the Clerk will be able to determine in its preaudit function whether payments made in advance are properly authorized.

Finding No. 12: The County did not consistently follow prescribed policies and procedures relating to the approval of purchases, including purchases made through two advertising and marketing firms.

Recommendation: The County should ensure that required approvals are obtained for all purchases in accordance with County purchasing policies and procedures.

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

The County acknowledges that insufficient controls were in place to assure adequate review of expenditures. As part of the corrective action already taken by the County, on September 18, 2012, the BCC has substantially amended the Operations and Procedures Manual governing the operation of the

TDC and the Tourist Development Department. Those amendments require that all expenditures be in conformity with established policies and utilize the procedures of the County's Purchasing Policy (See D.400). These amendments mandate that purchases up to \$25,000 require approval of the Director and Purchasing Director; purchases above \$25,000 and up to \$50,000 require the approval of the Director, the Purchasing Director and the County Administrator; and purchases over \$50,000 require the approval of the BCC (See D.400 2). Further, the new Agreement with the entity to provide marketing and advertising services to the Tourist Development Department requires that all purchases made by the Agency on behalf of the County be made in accordance with the County's Purchasing Manual. Section 5.1 of the new Agreement provides as follows:

5.1 All purchases made by the CONTRACTOR on behalf of the COUNTY shall be made in accordance with the COUNTY's Purchasing Manual. A copy of the Purchasing Manual has been provided to the CONTRACTOR and its terms are incorporated herein by reference as an essential part of this Agreement.

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurances that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

Finding No. 13: The County did not consistently follow prescribed policies and procedures relating to the use of purchasing cards (P-cards), document the receipt of goods and services purchased with P-cards that were not immediately provided to the purchaser, or document the public purpose served by the P-card expenditures.

Recommendation: The County should strengthen its P-card policies and procedures to ensure that an independent review and approval is documented for all purchases; that employees and reviewers certify they reviewed the applicable P-card expenditure report, that it correctly reflects the supporting receipts, and that all purchases made were for official County business and in accordance with applicable rules and directives; that P-card certification and receipt forms are timely signed by employees; that employees acknowledge the receipt of goods and services; and that County records evidence the authorized public purpose served by the expenditures.

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

The County has previously taken action to reestablish the reporting authority of the Director of the Tourist Development Department to the County Administrator. As such, the County Administrator would provide independent reviewing authority of P-card expenditure reports and authorizations. The County will also review and consider the amendment of the policies and procedures to address controls related to the use of P-cards, including strengthening the reporting requirements of these expenditures, placing caps on the extent of the expenditures, and providing assurances that purchases made through the use of P-cards are actually received by the County.

TRAVEL

Finding No. 14: The County needed to enhance its policies and procedures to ensure that travel expenditures are preapproved and adequately documented.

Recommendation: The County should strengthen its procedures to ensure the preapproval of travel expenditures for all authorized persons and the use of properly completed and signed travel vouchers to support all travel expenditures and entertainment-related expenditures pursuant to law.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Those amendments require travel procedures in conformity with Section 112.0601, Florida Statutes, including procedures for preapproval of travel. (See C.400 – C.410). Further, guidelines have been established for Reimbursable Promotional Travel and Expenses including those related to activities of those in the tourism and promotional industry. (See C.500). Additionally, as part of the implementation process for these procedures, in June, 2012, members of the Tourist Development Department staff attended training programs to enhance the use and understanding of the requirements relating to travel and entertainment related expenditures.

The County will continue to review the policies and procedures related to travel expenditures and the use of signed travel vouchers to support all travel and entertainment-related expenditures to assure that adequate controls are provided and is consistent with the mandates of County policy and Florida Statutes.

SPECIAL EVENTS GRANTS AND SPONSORSHIPS

Finding No. 15: The BCC had not adopted written policies and procedures relating to special events grants, and the County did not document that the special events grants were used for allowable purposes or were effective in increasing tourism and the use of lodging facilities.

Recommendation: The BCC should continue to strengthen its special events grant policies and procedures by addressing the methodology for calculating the amounts of the grants and requiring grant recipients to sign a written agreement acknowledging the terms and conditions of the grants.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. As part of that amendment, the BCC set forth various criteria for the evaluation of Special Event Funding, including the application process, the provision of guidelines and criteria for the consideration of funding, and post event evaluation. (See G.000 – G.500).

The County will continue to review and evaluate the future amendment of the Operations and Procedures Manual to determine whether further provisions should be addressed which would enhance the oversight of this area. This includes but is not limited to the strengthening of the special event grant policies and procedures including requiring the recipients to sign a written agreement acknowledging the terms and conditions of the grant.

Finding No. 16: The BCC had not adopted written policies and procedures relating to sponsorships of organizations or events. In addition, the County did not consistently document the purpose for which the sponsorships were provided, that the sponsorships were used for allowable purposes, or that the sponsorships were effective in achieving the purposes for which they were provided.

Recommendation: The BCC should continue to strengthen its sponsorship policies and procedures by addressing the methodology for calculating the amount of sponsorships, requiring sponsorship recipients to sign a written agreement acknowledging the terms and conditions of the sponsorships, and requiring sponsorship recipients to provide documentation evidencing how the sponsorship moneys were used and that the sponsorships were effective in achieving their intended purpose.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC has substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. As part of that amendment, the BCC set forth various guidelines for the evaluation of Sponsorship Funding. (See G.600).

The County will continue to review and evaluate the future amendment of the Operations and Procedures Manual to determine whether further provisions should be addressed which would enhance the oversight and strengthen the controls of this area. This includes but is not limited to the strengthening of the sponsorship grant policies and procedures including requiring the recipients to sign a written agreement acknowledging the terms and conditions of the funding, the provision of documentation as to how the money was used and how they were effective in achieving their intended purpose.

ALLOWABLE USES OF RESTRICTED RESOURCES

Finding No. 17: The County paid \$2.5 million from tourist development taxes for lifeguarding, beach patrol, and beach shuttle services that were not expressly authorized by law.

Recommendation: The County should seek an opinion from the Attorney General as to the allowability of the \$2,476,095.68 of questioned expenditures and, if appropriate based on the Attorney General's opinion, should restore this amount to the tourist development taxes accounts.

COUNTY RESPONSE: The County acknowledges the finding and recommendation of the Auditor General as it relates to the funding of lifeguard services with Tourist Development Taxes.

The funding of lifeguard services through the use of Tourist Development Taxes was initially considered by the BCC in 2003, following numerous highly publicized drowning by visitors to the Gulf Coast area. The BCC became concerned for the safety of users of our beaches and also the impact on tourism as a result of the drownings. In the view of the BCC, the provision of a safe beach is an essential component of promoting the area as a family tourist destination. As a result, they began to explore the possibility of providing lifeguard services and identifying possible funding sources. At that time, the County sought legal opinions from two law firms, both of whom independently concluded that such use of tourist development tax revenues was permissible under Section 125.0104(5) (a) 2., Florida

Statutes, provided the County make the necessary legislative finding that the primary purpose of providing lifeguard services is related to promoting tourism within the County.

In making its finding, the Auditor General relied solely on the Opinion of the Attorney General No. 90-55 which had opined that Tourist Development Taxes may not be used to fund lifeguard services as those services did not constitute “beach improvement, maintenance, renourishment, restoration, and erosion control” within the contemplation of Section 125.0104 (5) (a) 4, Florida Statutes. Both law firms that reviewed this matter were aware of this opinion and distinguished it in their respective opinions.

The primary basis for their conclusion that the Attorney General Opinion was not controlling was that Okaloosa County was not relying Section 125.0104(5) (a)4, Florida Statutes that was the basis of the Opinion, but rather the County was relying on Section 125.0104(5) (a)2. At the time 1990 Attorney General Opinion was issued, that provision authorized the expenditure of tourist development tax revenue “[T]o Promote and advertise tourism in the State of Florida and nationally and internationally.” However, the Legislature, partly in recognition that the provision of services and activities may attract tourists and beneficially promote tourism to an area, amended this subsection in 1996 to add the following:

2. To Promote and advertise tourism in the State of Florida and nationally and internationally; however, if tax revenues are expended for an activity, service, venue, or event, the activity, service, venue, or event shall have as one of its main purposes the attraction of tourists as evidenced by the promotion of the activity, service, venue, or event to tourists.

Section 44 of Chapter 96-397, Laws of Florida.

The BCC believes that the provision of a safe environment for the attraction of visitors to the area is an essential component of the promotion of tourism to the area. Nor are lifeguard services in the nature of a general governmental function which is owed to the public at large. Therefore, though the County was aware of the Opinion of the Attorney General, it believes that the analysis must be made in the context of the original question asked and the changes in the law that have occurred in the 23 years since the issuance of that opinion.

The BCC agrees with the Auditor General that this is an issue that requires clarification and it shall review various options which would allow the County to obtain certainty as to its authority to utilize Tourist Development Tax proceeds for these purposes.

The second issue raised by Finding 17 relates to the funding of beach shuttle services with Tourist Development Tax proceeds. The Finding suggests that beach shuttle service is in the nature of a general transportation related activity and therefore provided to the public at large. Initially, the County does not believe that beach shuttle services are a general governmental function owed to the public at large, but, rather, it is a highly specialized type of activity that is directly related to the activities within high tourist areas. Second, these services are no longer being funded with Tourist Development Tax proceeds.

Finding No. 18: The County paid \$117,994 for various goods and services from British Petroleum (BP) grant funds that were, in the past, paid from tourist development taxes, contrary to grant provisions.

Recommendation: The County should consult with Florida's Coastal Northwest Communications Council, Inc., as to the allowability of the \$117,994 in questioned costs.

COUNTY RESPONSE: The County acknowledges the audit finding and recommendation.

The County has made a preliminary review of the expenditures from the Third Grant from BP and will continue to review documentation to determine whether the terms of the grant from the Florida's Coastal Northwest Communications Council, Inc., have been complied with in the expenditure of those funds. The County has previously notified the Communications Council and BP of the existence of an expenditure which was not within the terms of the grant. To the extent that other expenditures are found to not comply with the grant or are otherwise questionable, then the County will consult with Florida's Coastal Northwest Communications Council, Inc., as to those questioned costs.

Finding No. 19: As part of the Emerald Coast Money Debit Card Program, the County used \$207,730 of BP grant funds for purposes that County records did not evidence were allowed by grant provisions.

Recommendation: The County should consult with the FCNCC as to the allowability of the \$207,730.45 in questioned costs.

COUNTY RESPONSE: The County acknowledges the audit finding and recommendation.

The County has made a preliminary review of the BP Grant proceeds and its use for the Debit Card Program. The County acknowledges that some Debit Cards acquired under this program were not utilized in conformity with the Grant requirements. The County will continue to review documentation as to other expenditures to determine whether the terms of the Grant were violated.

As part of the County's efforts, it has cancelled the remaining balance on all of the Debit Cards and has received a refund of these amounts. The County has been in touch with representatives of British Petroleum concerning handling of these funds and prospective use.

Additionally, for those Debit Cards which are found to not be in compliance with the Grant or are otherwise questionable, the County will consult with Florida's Coastal Northwest Communications Council, Inc.

Finding No. 20: The County overcharged BP \$27,063 in connection with medical support services provided, and County records did not adequately support the allowability of \$385,185 in reimbursements received from BP.

Recommendation: For future reimbursement agreements, the County should ensure that reimbursement requests are made pursuant to terms of the agreements, including submission of required supporting documentation.

COUNTY RESPONSE: The County acknowledges the audit finding and recommendation.

The County has reviewed the charges to BP in connection with medical support services provided and acknowledges that there may have been some overcharges. Though the original Medical Services Agreement included a rate of \$50.00 for an Advanced Life Support (ALS) SUV (non-transport) vehicle, representatives of BP specifically requested the availability of a fully staffed Advanced Life Support (ALS) Ambulance with transport capability. For those services that were provided by that enhanced vehicle, the standard rate of \$100 was charged.

However, the County has reviewed these charges and determined that there were some possible overcharges. These charges are being verified and where an overcharge is confirmed, the County will contact BP concerning these amounts and will refund those amounts where necessary.

The County will require for future reimbursement agreements that requests for reimbursement be made in conformity with the agreements, including the submission of required supporting documentation.

MOTOR VEHICLES

Finding No. 21: The County had not established adequate controls over the use of fuel cards.

Recommendation: The County should strengthen its vehicle usage procedures to include more reasonable fuel consumption parameters, the effective use of fuel card exception reports and user department reconciliations of fuel charges to gas receipts, and the retention of all gas receipts by user departments.

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

The County currently monitors fuel sales through a variety of documentation. The primary source of review is the electronic transaction data which establishes the purchaser, the fuel card number, the vehicle that was fueled, the fueling location, the amount purchased and the price. The County has already reviewed the parameters for all fuel cards and adjusted the parameters where appropriate.

The County will continue to review its procedures and controls to provide assurance that adequate documentation is available. The County will also strengthen its vehicle usage procedures to include fuel consumption parameters and more effective use of its fuel card exception reports. Further, the County will review the viability of requiring user department reconciliation of fuel charges to gas receipts and the retention of all gas receipts by user departments.

ACCOUNTING CONTROLS

Finding No. 22: The County incorrectly classified and recorded certain expenditures in the accounting records, contrary to guidance provided by the Florida Department of Financial Services.

Recommendation: The County should strengthen its procedures to ensure that expenditures are properly classified and recorded in accordance with the Manual.

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

Initially, under the Constitution of the State of Florida, the Clerk of the Court and the BCC are independent constitutional offices. Though the Clerk, under Article V., section 16 of the Florida Constitution is empowered to serve as the “ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds,” the operation of his office is not subject to the direction of the BCC. The classification and recording of expenditures are within the purview of the Clerk’s functions. Therefore specific issues raised in regard to the function of the Clerk’s office either have been addressed or will be the subject of future coordination between the respective constitutional bodies.

The County will work with the Clerk to strengthen its procedures to ensure that expenditures are properly classified and recorded in accordance with the Uniform Accounting System Manual for Florida Counties. To the extent that the misclassifications of expenditures in the general ledger are the result of errors by the advertising entities providing services to the County, efforts will be made to coordinate with these entities to assure that they are providing the proper coding. Finally, other corrective actions taken by the BCC will also aid the Clerk in assuring that there is adequate documentation to record disbursements in accordance with the Uniform Accounting System Manual for Florida Counties.

CLERK’S RESPONSE: Historically, the Clerk recorded expenditures in accordance with the documentation provided and consistent with the Manual provided by the Florida Department of Financial Services. With the additional corrective action taken by the County in regard to the advertising contracted services, the Clerk will be able to more clearly identify the goods or services provided to make a better determination about the proper classification and maintain compliance with the Manual.

ELECTRONIC FUNDS TRANSFERS

Finding No. 23: The BCC had not adopted written policies and procedures, and the County had not established adequate controls, over the authorization and processing of electronic funds transfers.

Recommendation: The BCC should develop written policies and procedures addressing EFTs as required by Section 668.006, Florida Statutes, including providing for an adequate separation of duties over access to County assets and the related accounting records, and documenting independent approvals before the funds are transferred. In addition, the CCC should revise its funds transfer agreement with the bank to address the deficiencies noted above and timely update its funds transfer agreement with the bank when changes in authorized personnel occur.

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

Initially, under the Constitution of the State of Florida, the Clerk of the Court and the BCC are independent constitutional offices. Though the Clerk, under Article V., section 16 of the Florida Constitution is empowered to serve as the “ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds,” the operation of his office is not subject to the direction of the BCC. The Clerk’s constitutional authority vests him with him the independent authority within these areas of responsibility. Therefore specific issues raised in regard to the function of the

Clerk's office either have been addressed or will be the subject of future coordination between the respective constitutional bodies.

The finding made by the Auditor General cites the provisions of Section 668.006, Florida Statutes, which requires the head of each agency to implement control processes and procedures to ensure adequate integrity, security, confidentiality and auditability of business transactions conducted using electronic commerce. Though the Finding references that the County utilized electronic fund transfers, those transfers were through the Clerk's Office and therefore the responsibility to implement controls rests with the Clerk.

However, the County as part of its corrective action plan will coordinate with the Clerk to develop policies and procedures for the use of electronic fund transfers.

CLERK'S RESPONSE: The Clerk will review Section 668.006, Florida Statutes in order to be compliant. The Clerk will document policies and procedures for Electronic Funds Transfer as a part of the Clerk's Accounting Policies and Procedures Manual. The Clerk has modified the bank agreement and is currently investigating, along with the County Bank provider, any additional controls for the Electronic Funds process.

INFORMATION TECHNOLOGY CONTROLS

Finding No. 24: The County had not established adequate controls over employee access privileges to data and information technology resources.

Recommendation: The County should strengthen its procedures to include the periodic review of access privileges granted to employees and timely remove or modify unnecessary or incompatible access privileges detected.

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

Initially, under the Constitution of the State of Florida, the Clerk of the Court and the BCC are independent constitutional offices. Though the Clerk, under Article V., section 16 of the Florida Constitution is empowered to serve as the "ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds," the operation of his office is not subject to the direction of the BCC. The Clerk's constitutional authority vests him with the independent authority within these areas of responsibility. Therefore specific issues raised in regard to the function of the Clerk's office either have been addressed or will be the subject of future coordination between the respective constitutional bodies.

However, the County as part of its corrective action plan will coordinate with the Clerk to develop policies and procedures for the periodic review of access privileges.

CLERK'S RESPONSE: The Clerk has recently reviewed the controls in place for all the users of the financial software system and updated those controls, where possible and where needed. The Clerk will document policies and procedures in place for processing of transactions, especially manual journal entry processing, in order to update them and provide additional controls, as necessary. Periodic reviews of access privileges will be conducted on an ongoing basis to ensure good internal control and proper employee access.

PUBLIC RECORDS

Finding No. 25: The County did not record minutes of a TDC and TDC subcommittee meeting, contrary to law. In addition, the minutes of the remaining meetings were not signed or otherwise designated to indicate the minutes were the official minutes approved by the TDC or TDC subcommittees.

Recommendation: The County should continue to strengthen its procedures for maintaining official minutes of the TDC and TDC subcommittees by recording minutes for all meetings and requiring that the final approved minutes made available for public inspection be signed by the TDC or TDC subcommittee chairman and the employee who recorded the minutes.

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

As part of the corrective action already taken by the County, on September 18, 2012, the BCC substantially amended the Operations and Procedures Manual governing the operation of the TDC and the Tourist Development Department. Those amendments require that all meetings be duly advertised in a newspaper of general circulation and that such meetings be subject to all of the procedural requirements of Chapter 286, Florida Statutes. The amendments to the Operations and Procedures Manual also require that minutes be kept at these meetings in conformity with Florida Statutes. (See A.700 – A.750).

The County will continue to periodically review the Tourist Development Plan and Operations and Procedures Manual to provide assurances that adequate controls are provided and that the operation of the TDC is consistent with the mandates of County policy and Florida Statutes.

ATTACHMENT

“A”

ORDINANCE NO. 12- 21

AN ORDINANCE OF THE BOARD OF COUNTY COMMISSIONERS OF OKALOOSA COUNTY, FLORIDA, AMENDING ORDINANCE 07-58 AND SECTIONS 20-72 THROUGH 20-77 OF THE OKALOOSA COUNTY CODE OF ORDINANCES, RELATING TO THE TOURIST DEVELOPMENT PLAN; MAKING FINDINGS; AMENDING THE COUNTY'S TOURIST DEVELOPMENT PLAN; ESTABLISHING AUTHORIZED USES OF TOURIST DEVELOPMENT TAX REVENUES; ESTABLISHING REVENUE PROJECTIONS AND ALLOCATIONS; PROVIDING FOR THE CONTINUED ALLOCATION OF THE FOURTH PERCENTAGE POINT FOR THE OPERATION, MAINTENANCE, REPAIR OR RENEWAL OF THE CONVENTION CENTER; ESTABLISHING THE TERM OF THE FIFTH PERCENTAGE POINT; PROVIDING AN EFFECTIVE DATE.

WHEREAS, pursuant to Section 125.0104, Florida Statutes, known as the "Local Option Tourist Development Act", the Board of County Commissioners ("Board") adopted Ordinance 89-23 in 1989 which authorized the collection of two cents of tourism development tax per dollar exchanged on certain short term lodging rental transactions within an described sub-county tourism development district, authorized a referendum for approval of imposition of the tax, created the County's initial Tourist Development Plan (the "Plan"), and established the Okaloosa Tourist Development Council (the "Council"); and

WHEREAS , the Board adopted Ordinance 99-08 in May, 1999 to include the construction and operation of a convention center as a component part of the Plan and authorize the imposition and collection of an additional two cents per dollar in tax for the purpose of financing and operating the conference center with the third cent allocated to tourism promotion and product improvement purposes and the fourth cent dedicated to the planning, construction and operation of a county-owned convention center; and

WHEREAS, the Board adopted Ordinance 07-58 in November, 2007 to authorize the imposition and collection of an additional cent for a total of five cents per dollar in tax and to dedicate the first cent revenues to funding the County's portion of the costs of restoration, renourishment and related monitoring of the County's gulf-front beaches; and

WHEREAS, the Okaloosa County Tourist Development Council has submitted to the Board a recommended amendment to the ordinance and the Plan contained therein; and

WHEREAS, the Board hereby finds that the proposed amended Tourist Development Plan is an effective and reasonable plan for the promotion of tourism in the County's sub-district.

NOW, THEREFORE, BE IT ORDAINED BY THE BOARD OF COUNTY COMMISSIONERS OF OKALOOSA COUNTY, FLORIDA:

SECTION 1. Section 20-71, Code of Ordinances is hereby amended as follows and shall read in its entirety:

Sec. 20-71. - Tax levied; collection; remittance.

- (a) There is hereby levied and imposed a tourist development tax in the hereinafter described sub-district of Okaloosa County, Florida, at the rate of five percent of each whole and major fraction of each dollar of the total rental charged every person who rents, leases or lets for consideration any living quarters or accommodations in any hotel, apartment hotel, motel, resort motel, apartment, apartment motel, rooming house, mobile home park, recreational vehicle park, condominium, condominium hotel or campground for a term of six months or less. When receipt of consideration is by way of property other than money, the tax shall be levied and imposed on the fair market value of the non-monetary consideration.
- (b) The tourist development tax shall be in addition to any other tax imposed pursuant to Chapter 212, Florida Statutes, and in addition to all other taxes, fees, and the considerations for the rental or lease.
- (c) The tourist development tax shall be charged by the person receiving the consideration for the lease or rental, and it shall be collected from the lessee, tenant or customer at the time of payment of the consideration for such lease or rental.

- (d) The person receiving the consideration for such rental or lease shall receive, account for, and remit the tax to the Board of County Commissioners (the "Board") at the same time and in the manner provided for persons who collect and remit taxes under Section 212.03, Florida Statutes. The same duties and privileges imposed by Chapter 212, Florida Statutes, upon dealers in tangible property, respecting the collection and remission of tax, the making of returns, the keeping of books, records and accounts, the payment of a dealer's credit, and compliance with the rules of the County Clerk of the Circuit Court (the "Clerk") in the administration of said chapter shall apply to and be binding on all persons who are subject to the provisions of this article; provided, however, the Clerk may authorize a quarterly payment when the tax remitted by the dealer for the preceding quarter did not exceed \$25.00.
- (e) The Clerk shall keep records showing the amount of taxes collected, which records shall be open to the public during the regular office hours of the Clerk, subject to the provisions of Section 213.053, Florida Statutes.
- (f) Collections received by the county clerk of the circuit court, less costs of administration of this article, shall be paid on a monthly basis, to the Board for use by the county in accordance with the provisions of this article and shall be placed in the county tourist development trust fund.
- (g) The Clerk is authorized to employ persons and incur other expenses necessary to administer this article.
- (h) The Clerk may promulgate such rules and may prescribe and publish such forms as may be necessary to effectuate the purpose of this article.
- (i) The Clerk shall perform the enforcement and audit functions associated with the collection and remission of this tax, including, without limitation, the following:
 - (1) a. For the purpose of enforcing the collection of the tax levied by this article, the Clerk is hereby specifically authorized and empowered to examine at all reasonable hours the books, records, and other documents of all dealers, or other persons charged with the duty to report or pay a tax under this article, in order to determine whether they are collecting the tax or otherwise complying with this article.
 - b. In the event such dealer refuses to permit such examination of its books, records, or other documents by the Clerk as aforesaid, such dealer is guilty of a misdemeanor of the first degree, punishable as provided in Sections 775.082, 775.083, or 775.084, Florida Statutes. The Clerk shall have the right to proceed in circuit court to seek a mandatory injunction or other appropriate remedy to enforce his right against the offender, as granted by this section, to require an examination of the books and records of such dealer.

- (2) a. Each dealer, as defined in this article, shall secure, maintain, and keep for a period of three years, a complete record of rooms or other lodging, leased or rented by the dealer, together with gross receipts from such sales, and other pertinent records and papers as may be required by the Clerk for the reasonable administration of this article; and all such records which are maintained in this state shall be open for inspection by the Clerk at all reasonable hours at such dealer's place of business located in the county.
- b. Any dealer who maintains such books and records at a point outside the county must make such books and records available for inspection by the Clerk. Any dealer subject to the provisions of this article who violates these provisions is guilty of a misdemeanor of the first degree, punishable as provided in Sections 775.082, 775.083, or 775.084, Florida Statutes.
- (3) a. The Clerk shall send written notification, at least 30 days prior to the date an auditor is scheduled to begin an audit. The Clerk is not required to give 30 days prior notification of a forthcoming audit in any instance in which the taxpayer requests an emergency audit.
- b. Such written notification shall contain:
 - 1. The approximate date on which the auditor is scheduled to begin the audit.
 - 2. A reminder that all of the records, invoices, and related documentation must be made available to the auditor.
 - 3. Any other requests or suggestions the clerk may deem necessary.
- c. Only records, receipts, invoices, and related documentation which are available to the auditor when such audit begins shall be deemed acceptable for the purposes of conducting such audit.
- (4) Effective with taxes collected for the month of July 1992, all taxes collected under this article shall be remitted to the Board of County Commissioners, Attention: Finance officer.
- (5) a. In addition to criminal sanctions, the Clerk is empowered, and it shall be his duty, when any tax becomes delinquent or is otherwise in jeopardy under this article, to issue a warrant for the full amount of the tax due, or estimated to be due, with the interest, penalties, and cost of collection, directed to all and singular sheriffs of the

state, and shall record the warrant in the public records of the county, and thereupon the amount of the warrant shall become a lien on any real or personal property of the taxpayer in the same manner as a recorded judgment.

- b. The Clerk may issue a tax execution to enforce the collection of taxes imposed by this article and deliver it to the sheriff. The sheriff shall then proceed in the same manner as prescribed by law for executions and shall be entitled to the same fees for his services in executing the warrant to be collected.
- c. The Clerk may also have a writ of garnishment to subject any indebtedness due to the delinquent dealer by a third person in any goods, money, chattels, or effects of the delinquent dealer in the hands, possession, or control of the third person in the manner provided by law for the payment of the tax due. Upon payment of the execution, warrant, judgment, or garnishment, the Clerk shall satisfy the lien of record within 30 days.
- (j) Tax revenues may be used only in accordance with the provisions of Section 125.0104, Florida Statutes.
- (k) Three percent of the tax collected herein shall be retained by the Clerk for costs of administration. The remainder of the tax shall be deposited in the county tourist development trust fund on a monthly basis.

SECTION 2. Section 20-72, Code of Ordinances is hereby amended as follows and shall read in its entirety:

Sec. 20-72. - Tourist development plan.

- (a) *Revenue projections.* The tax revenues pursuant to this section for the next fiscal year and thereafter until amended by the Board shall be used to fund the Okaloosa County Tourist Development Plan, which is hereby adopted as follows:

The anticipated annual revenues to be produced by the tourist development tax as identified herein in parenthesis for each budget category is provided as an annual total based on past collection trends projected forward. The projected revenues are estimates and may vary from those identified herein. The amounts shown have already been reduced by the costs of administration retained by the Clerk pursuant to its local tax administration authority under the provisions of Okaloosa County Ordinance No. 92-08 and Section 20-71 (k) above.

- (b) *Taxing district boundaries.* The geographic area included within the County's sub-district is depicted on Exhibit A, as attached hereto and incorporated herein.

- (c) *County tourist development plan.* The county hereby determines that the tourist development plan for the sub-district shall be comprised of the following broad goals and objectives and makes the following findings of fact:
- (1) *Tourism promotion.* The tourism related economy within Okaloosa County generates significant direct and indirect revenue to businesses within the community. Accordingly, tourism is essential to a healthy economy and is a driving force in the growth of business development and increased employment opportunities for County residents. The County has worked diligently on the development and maintenance of quality advertising, sales, marketing and public relations initiatives for the sub-district which presents a consistent and positive brand for the area. This branding is essential to the development of this section of the economy and the County will work towards the development and implementation of unified marketing campaigns. These campaigns will be monitored and analyzed by the Tourist Development Council (the "Council"), the Director and tourist development department staff with, at a minimum, quarterly reports provided to the Board. Within the guidelines set forth herein, the campaigns shall be conducted with funding levels designed to achieve maximum positive promotional exposure to potential visitors to the sub-district. The primary objective for the campaigns shall be the maintenance of consistent positive "branding" which consists of image and name recognition and the further development of "year round business," to encompass group and leisure business.

The support for a variety of special events is another productive means to further the development of year round business and bolster image and name recognition for the sub-district. Funds may be allocated on an annual basis for support of special events approved by the Board in accordance with procedures provided in the adopted Tourist Development Council Operation and Procedures Manual. The development of a visible and professional support community for local production of film and advertising projects is a positive investment both in the sub-district economy and in the overall branding for the County.

The County determines that continuing maintenance efforts to keep the beaches, waterways, access ways and other tourist destination facilities within the sub-district clean, attractive and safe for public usage are important to the image and marketing of the primary asset of the sub-district and may include a mechanical beach cleaning program for all Gulf beaches within the sub-district outside of those owned or controlled by the Federal government. This also includes the maintaining of the aesthetics of access corridors within the sub district so as to provide a consistent positive branding for the area.

- (2) *Convention business development.* The county has operated the Emerald Coast Convention Center (“ECCC”) since 2003 and its value as a catalyst for the growth of the conference/convention/group business segment of the visitor population is well established and is an effective means of developing year round business in the sub-district. The ECCC will continue to be managed in house or by contract with professional management firms, or by a combination of the two. The facility will also provide a venue for cultural, educational, sport and entertainment events which will be a positive draw for visitors as well as a benefit to the overall quality of the branding of County products. The County will continue to explore options for the future expansion of the ECCC facilities and functions.
- (3) *Product improvement.* The county determines that the beaches and waters of the Gulf of Mexico and the Choctawhatchee Bay are the focus of the attraction that the sub-district offers to our visitors. This includes not only the beach and waterways themselves but the tourist destination facilities, including recreational facilities within the sub-district, which allow greater access and enhanced enjoyment of these areas. Accordingly, both the maintenance and improvement of these natural assets and other tourist destination facilities, including the improvement of public access to and use of these assets, are essential to the preservation and improvement of the very foundation of the economy that the County is promoting.

The long-term maintenance goals of this plan also include the use of tourism tax revenues as a part of an ongoing partnership between federal, state and county and municipal entities for the restoration and re-nourishment of the beaches within the sub-district. The County will continue to fund the permitting and construction of restoration and re-nourishment projects for beaches within the sub-district. This will facilitate the dual goal of this long-term restoration plan and preservation and management of the County’s waterfront resources and other tourist destination facilities within the sub-district, including the improvement of public access to those resources and facilities throughout the sub-district. This component of beach access improvement and beach restoration and monitoring is essential for ensuring access for visitors utilizing non-waterfront accommodations. The maintenance of beach access facilities and other tourist destination facilities promotes a broader accommodation base by improving access for non-waterfront accommodations. Accordingly, the allocation of tourist tax revenues for the improvement, maintenance and repair of our beaches and waters and other tourist destination facilities, including access to these facilities, is an appropriate use of these revenues when and if funding is available.

An essential component of product improvement is to provide a safe environment for the use of the beaches, waters and facilities. Therefore,

the allocation of tourist development tax revenues for the provision of lifeguard services for the beaches and waterways is an appropriate use of these revenues when and if funding is available.

- (4) *Administration.* The county determines that the best means for administration of the tourism tax revenues allocated under this plan is local administration by the Director of the Tourist Development Department under the direction of the County Administrator. The administration of the revenue collection process shall be carried out under a subcontract with the Clerk's Office, as provided for by separate Ordinance 92-08.
- (5) *Reserve or emergency operations fund.* The county determines that it is prudent, based on actuarial and actual experience, to maintain a reserve fund for the purpose of supplementing standard promotional functions and beach maintenance efforts and for restoration of the county's beach improvements in the aftermath of a major storm event which impacts sub-district coastal areas. This reserve amount should be carried forward as a budget allocation from year to year and should be in sufficient amount, as determined by the Board to address recovery needs in these areas in the case of a catastrophic storm event. These funds are also available for allocation in the case of extraordinary beach maintenance needs related to natural or man-induced events requiring additional beach cleaning efforts and equipment following the impact of an emergency event. The Council, through the Director, will be responsible for recommending to the Board when and how these funds should be used in the event of an emergency or catastrophic storm event.
- (d) *Tax revenue projections and allocations.* Pursuant to the requirements of Section 125.0104(4), F.S., the tax revenues collected pursuant to this Ordinance shall be used to fund the goals and uses identified in the Okaloosa County Tourist Development Plan as set forth above. The allocation shall begin Fiscal Year 2012-2013 and shall continue for subsequent fiscal years until amended by the Board.
- (1) For the revenues generated by the first percentage point on each dollar, for each year beginning with Fiscal Year 2012-2013, the allocation shall be as follows:
- a. To provide beach park facilities or beach improvements, maintenance, renourishment, restoration and erosion control, including shoreline protection, enhancement, access, cleanup or restoration of other waterways and tourist destination facilities within the sub-district for which there is public access, including the beaches located within the city limits of the City of Destin. (24 month projected revenue total, net of administrative charges, is \$4,074,000).

- b. To the extent that such proceeds are not required for those uses set forth under section 20-72 (1) a. above, then such proceeds may be used for any other purposes authorized under section 125.0104 (5), Florida Statutes.
- (2) For the revenues generated by the second percentage point on each dollar, for each year beginning with Fiscal Year 2012-2013, the allocations shall be as follows:
 - a. Beach, waterways and other tourist destination facilities, improvements, landscaping, operations and maintenance including lifeguard services and protection. (24 month projected revenue total, net of administrative charges, is \$2,824,000).
 - b. Tourist bureau administration. (24 month projected revenue total, net of administrative charges, is \$1,250,000).
 - c. To the extent that such proceeds are not required for those uses set forth under section 20-72 (2) a. and b. above, then such proceeds may be used for any other purposes authorized under section 125.0104 (5), Florida Statutes.
- (3) For the revenues generated by the third percentage point on each dollar, for each year beginning with Fiscal Year 2012-2013, the allocation shall be as follows:
 - a. The operations of the convention center, the beach or any other beach park or tourist destination facility. (24 month projected revenue total, net of administrative charges, is \$4,074,000).
 - b. To the extent that such proceeds are not required for those uses set forth under section 20-72 (3) a. above, then such proceeds may be used for any other purposes authorized under section 125.0104 (5), Florida Statutes.
- (4) For the revenues generated by the fourth percentage point on each dollar for each year beginning with Fiscal Year 2012-2013, the allocation shall be as follows:
 - a. For the payment of debt service on bonds issued to finance the construction, reconstruction or renovation of a convention center and to pay the planning and design costs incurred prior to the issuance of such bonds. The Board determines that the extension of the fourth

percentage point is necessary to provide funds to operate, maintain, repair or renew the convention center. Therefore, following the expiration of bonds issued to fund the construction of the convention center, the proceeds of the fourth percentage point shall be used for any future expansion, renovation or reconstruction of the convention center. (24 month projected revenue total, net of administrative charges, is \$4,074,000).

- b. To the extent that such proceeds are not required for those uses set forth under section 20-72 (4) a above, then such proceeds may be used for any other purpose authorized by section 125.0104(3) (1) 2, 3, or 4, Florida Statutes
- (5) The fifth percentage point shall remain in effect until further action by the Board. For the revenues generated by the fifth percentage point on each dollar, for each year beginning with Fiscal Year 2012-2013, the allocation shall be as follows:
- a. Tourism promotion. (24 month projected revenue total, net of administrative charges, is \$4,074,000).

SECTION 3. Section 20-73, Code of Ordinances is hereby amended as follows and shall read in its entirety:

Sec. 20-73. - Tourist development council.

- (a) Established. There is hereby established, pursuant to the provisions of Section 125.0104, Florida Statutes, an advisory council to be known as the "Okaloosa County Tourist Development Council" (the "Council"). The members of the Council shall elect from among their members a member to serve as chairman of the Council and prescribe the term of office.
- (b) Duties and responsibilities. The Council hereby established shall make recommendations to the Board for the effective operation of the uses of the tourist development tax revenue raised by the tax hereby levied and may perform such other duties or functions as hereinafter may be prescribed by ordinance or resolution.
- (c) Review of revenue expenditures. The Council and the Director shall continuously review all expenditures of revenue raised by the tax hereby levied and shall report to the Board all expenditures of said revenue believed to be unauthorized by the provisions of this article. The Board, upon receiving notification of expenditures believed to be unauthorized by the council, shall review the Council's findings

and take such administrative or judicial action as it sees fit to ensure compliance with this article and the provisions of Section 125.0104, Florida Statutes.

SECTION 4. Section 20-74, Code of Ordinances is hereby amended as follows and shall read in its entirety:

Sec. 20-74. - Failure to charge or collect tax.

Any person who is taxable hereunder who fails or refuses to charge and collect from the person paying any rental or lease the taxes herein provided, either by himself or through his agents or employees, shall be, in addition to being personally liable for the payment of the tax, guilty of a misdemeanor of the second degree, punishable as provided in Section 775.082, Section 775.083 or Section 775.084, Florida Statutes.

SECTION 5. Section 20-75, Code of Ordinances is hereby amended as follows and shall read in its entirety:

Sec. 20-75. - Representation that tenant or lessee need not pay tax.

No person shall advertise or hold out to the public in any manner, directly or indirectly, that he will absorb all or any part of the tax, or that he will relieve the person paying the rental of the payment of all or any part of the tax, or that the tax will not be added to the rental or lease consideration, or when added, that it or any part thereof will be refunded or refused, either directly or indirectly, by any method whatsoever. Any person who willfully violates any provisions of this subsection shall be guilty of a misdemeanor of the second degree, punishable as provided in Section 775.082, Section 775.083 or Section 775.084, Florida Statutes.

SECTION 6. Section 20-76, Code of Ordinances is hereby amended as follows and shall read in its entirety:

Sec. 20-76. - Tax deemed lien.

The tax hereby levied shall constitute a lien on the property of the lessee, customer or tenant in the same manner as, and shall be collectible as are, liens authorized and imposed in Sections 713.67, 713.68 and 713.69, Florida Statutes.

SECTION 7. Section 20-77, Code of Ordinances is hereby amended as follows and shall read in its entirety:

Sec. 20-77. - Representation of county tourism.

No business entity, other than a county tourism promotion agency, within the boundaries of Okaloosa County, Florida, shall use names as specified in Section 125.0104(9)(e), Florida Statutes, including "visitor information centers" when representing itself to the public as an entity representing tourism interest of the county.

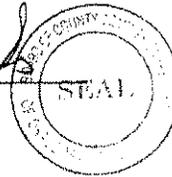
Being a county levying the tourist development tax as aforesaid, in addition to any other powers and duties provided for agencies created for the purpose of tourism promotion by Okaloosa County, such agencies are authorized and empowered to represent themselves to the public as convention and visitors bureaus, visitors bureaus, tourist development councils, vacation bureaus, county tourism promotion agencies, or visitor information centers.

PASSED AND ADOPTED in Regular Session this 18th day of September, 2012.

BOARD OF COUNTY COMMISSIONERS
OF OKALOOSA COUNTY, FLORIDA

ATTEST:


DON HOWARD,
Clerk of Court 


DON R. AMUNDS,
Chairman 

Okaloosa County TDC Tax District



Legend:

-  TDC Tax District
-  Water Features

MAP PROJECTION:
North Carolina State Plane
Datum: North American Datum 1983
MGRS: 18NMD 788E

PUBLIC RECORDS:
This map was created by Okaloosa County
Information Systems Department pursuant
to Chapter 119, Florida Statutes.

DISCLAIMER:
Okaloosa County hereby certifies that this
map depicts, indicates or signifies
parcel boundaries as shown on the
public records.

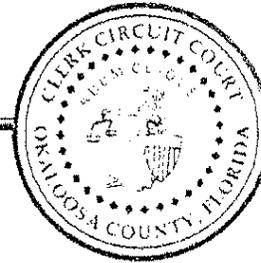
Produced by:
Okaloosa County GIS
August 2012 Exhibit "A"

Okaloosa County, FL



DON W. HOWARD

CLERK OF THE CIRCUIT COURT, OKALOOSA COUNTY, FLORIDA



September 24, 2012

Mrs. Liz Cloud, Program Administrator
State Library and Archives of Florida
R. A. Gray Building
500 South Bronough Street, Room 101
Tallahassee, FL 32399-0250

Dear Mrs. Cloud:

Please find enclosed certified copies of Ordinance Numbers 12-19, 12-20, 12-21, and 12-22 to be placed on file in your office. The Okaloosa County Board of County Commissioners adopted these ordinances on September 18, 2012. Thank you for your assistance.

Sincerely,

DON W. HOWARD
CLERK OF CIRCUIT COURT

Teresa Ward
Deputy Clerk

Enclosure

Certified Mail Article #7160 3901 9849 4730 1578

REPLY TO:

101 E. JAMES LEE BLVD. • P.O. DRAWER 1359 • CRESTVIEW, FLORIDA 32536-1359 • (850) 689-5000

SHALIMAR ANNEX • 1250 N. EGLIN PKWY, SUITE B-110 • SHALIMAR, FLORIDA 32579 • (850) 651-7200

BRACKIN BUILDING • 302 NORTH WILSON ST., SUITE 203 • CRESTVIEW, FLORIDA 32536 • (850) 689-5000

ATTACHMENT

“B”



OPERATIONS & PROCEDURES MANUAL

ATTACHMENT
B

*REVISED: **September 18, 2012***
Revision: # 14
*TDC approved: **August 6, 2012***
*Board approved: **September 18, 2012***

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A.000 GENERAL**A.100 STATEMENT OF ORGANIZATION**

Pursuant to the Local Option Tourist Development Act, Section 125.0104, Florida Statutes, Okaloosa County, Florida (the "County"), has: established an advisory group known as the Okaloosa County Tourist Development Council (the "Council"); imposed a Tourist Development Tax (5%); and approved a Tourist Development Plan pursuant to the mission set forth in A.400. The Council is responsible for advising the Okaloosa Board of County Commissioners (the "Board") on the implementation of the Tourist Development Plan in accordance with State and County Procedures and within budgetary limitations imposed by the Tourist Development Tax Revenues. The following areas are subject to oversight by the Council: 1) Emerald Coast Convention & Visitors Bureau, Inc.; 2) Emerald Coast Film Commission; 3) Emerald Coast Convention Center; and 4) Emerald Coast Official Visitor Welcome Center. In order to establish the procedures by which the Council will carry out its business and the Tourist Development Plan will be implemented, the Council and the Board have approved this Operations and Procedures Manual as the guiding instrument.

A.200 LOCATION OF OFFICE

The Council has established its business offices at 1540 Miracle Strip Parkway SE, Fort Walton Beach, FL 32548. All official business correspondence with the Council or any of its members shall be directed to the Okaloosa County Tourist Development Council, P.O. Box 609, Fort Walton Beach, FL 32549-0609.

A.300 LEGAL AUTHORITY

Legal authority for the Council is found under Section 125.0104, Florida Statutes, (2007 Supp.) known as "The Local Option Tourist Development Act"; Okaloosa County Ordinance 89-23 as subsequently amended and Resolution No. 89-40, establishing the Council and stating the intent to levy a Tourist Development Impact Fee. As an appointed *Advisory/Oversight Board* of the Board, the Council is bound by State and County Laws, Ordinances, and Procedures governing the Council members and their activities, on procedures of expenditures of the tourism impact fees.

A.400 MISSION

- 1) The Council's primary responsibility is to advise and make recommendations to the Board on matters related to tourism sales, marketing, and advertising of our beautiful Emerald Coast to the "outside world" to help increase overall visitation. The Council shall advise and make recommendations to the Board for the effective operation of the special projects or for uses of the Tourist Development Tax revenue. The Council shall continuously review expenditures of revenues from the Tourist Development Trust Fund and shall receive expenditure reports, at least quarterly, from the Tourist Development Director (the "Director"). The Council shall periodically make recommendations to the Board for changes to the approved Tourist Development Plan.
- 2) The Council shall also make recommendations on the promotion and operation of the Emerald Coast Convention Center, operation of the Visitors Welcome Center, the funding of beach cleaning, beach restoration improvements, a certified mandated State of Florida turtle watch program, water testing throughout Choctawhatchee Bay and the Gulf of Mexico, the Emerald Coast Film Commission, funding a percentage of the Beach Life Saving Program (beach lifeguards), funding public beach County access parks, funding improvements and maintenance of other tourist destination facilities within the sub-district, funding the artificial reef program, and overseeing the environmental council.

A.500 COUNCIL COMPOSITION/VACANCIES

- 1) **Composition.** The composition of the Council shall be as set forth in Section 125.0104, Florida Statutes, and Resolution 89-40 dated April 18, 1989, as amended. The two seats required for municipal elected officials shall be filled with one member from the Fort Walton Beach City Council or Mary Esther/Cinco Bayou City Council, and one member from the Destin City Council (these positions serving as liaison members of those municipalities). In addition, the composition of the Council shall, to the greatest extent possible, reflect equal representation for the distinct geographic areas of the district. Therefore, the composition shall include 4 members from the Fort Walton Beach/Mary Esther/Okaloosa Island/Cinco Bayou areas (with emphasis given to Okaloosa Island and Fort Walton Beach) and 4 members from the Destin area, or as close to this distribution as possible and at least 3 and no more than 4 of them should be owners and/or operators of motels, hotels, recreational vehicle parks, or other tourist accommodations in the county which are subject to the tax.. The 4 members from the two distinct areas shall include the City Council liaison from each of the two distinct areas listed above. The importance of industries represented on the Council shall be prioritized as follows; lodging, major attractions, restaurants, and

retail. The ninth (9th) member shall be the designated liaison from the Board as per Section 125.0104, Florida Statutes.

- 2) **Terms.** All Council members shall be appointed to staggered terms of four (4) years, with the exception of the liaison members of the municipalities and the Board liaison who serve as appointed by their respective City Council and the Board and their terms are subject to re-appointment or their term expiration, whichever comes first. No Council member shall serve more than a maximum of two (2) four (4) year consecutive fiscal year (Oct. 1st-Sept. 30th) terms. The Council member terms shall begin on October 1st of the year of appointment and terminate on September 30th of the fiscal year their term expires. Terms for the Chairman and Vice-Chairman are limited to one (fiscal) year. The Board shall have the option of designating the Chairman or allowing the Council to elect a Chairman. They may be re-appointed by a majority vote of the Council members but cannot serve more than two (fiscal) year terms. The Chairman and Vice-Chairman terms shall begin on the first day of October of the fiscal year of appointment and terminate on the 30th of September.
- 3) **Council Appointments.** The Council shall recommend at least one candidate for appointment to each open council seat to the Board, as the expiration of regular terms require. For all seats except the two reserved for elected municipal officials and the one reserved for a member of the Board, the appointment process shall begin with the selection of an ad hoc committee of council members not being considered for re-appointment by the Council. Tourist Development Department staff will publicly announce the open seats to prospective committee members and ask to receive resumes from such. Resumes and letters of interest will then be given to the ad hoc committee for them to begin the selection process. Formal interviews shall be conducted by the ad hoc committee and the ad hoc committee shall rank the candidates answers by pre-determined evaluation criteria. After the ad hoc committee has conducted a review of all interested resumes and after they have conducted in-person interviews and calculated evaluation scores, then the ad hoc committee will present the successful candidate(s) to the Council for consideration at the Council's regular meeting. The Council will review the candidate(s) and make a recommendation to the Board for final approval and appointment to serve on the Council.
- 4) **Local Government Seats.** The two seats reserved for elected municipal officials shall be presented by the Council for appointment by the Board upon the nomination of their respective municipal governing bodies. The nomination and approval of the two elected officials to serve as the Council's recommendations to the Board shall be carried out at a regularly scheduled public meeting of the nominating municipal governing body at least two months prior to term start dates. The nomination of each representative

shall be done in accordance with that body's specific rules and procedures for this type of nomination.

- 5) **Vacancies.** Should any seat on the Council become vacant, a replacement to serve the remainder of that term shall be nominated and appointed in the same manner as the nomination and appointment of the person whose absence created the vacancy. If the appointment to fill the vacant position is for greater than a two year term, then it counts as a full term. Municipal appointee vacancies will be filled by requesting from the respective governing bodies Mayor, a replacement for that position with a representative if possible with tourism interests.
- 6) **Removal/Resignation.** Any member shall be subject to removal from the Council if they miss three (3) Council meetings during the per fiscal year. Special consideration/leniency will be given for any absences due to Acts of God, personal illness/medical, and/or family emergencies. The member will be notified of the potential removal after the third absence and the Council will vote at its next regular meeting whether to recommend removal of that member to the Board. If one of the elected municipal or county officials on the Council is removed for this reason, the applicable governing entity shall be required to submit a different elected representative as nominee for their replacement. In the event a Council member no longer conforms to the criteria listed in Section A.500(1) of this Manual, to hold the seat to which they were appointed, said Council member shall forward a letter to the Council and the Board stating these facts and shall additionally tender a letter of resignation along with this submittal.

A.600 **STAFF**

- 1) **Tourist Development Director.** The Director will administer and coordinate the operations of the Council. The Director will be an employee of Okaloosa County and serve as Director of the Tourist Development Department, oversee the Emerald Coast Convention Center Management; Emerald Coast Film Commission, and the Visitor Welcome Centers and all divisions under the Tourist Development Department, in that capacity, shall report to the County Administrator. The Director will supervise all Tourist Development Department staff and shall be responsible for, and make recommendations to the Council and County Administrator concerning the operation of the Council and Tourist Development Department business. The Chairman of the Council may be a part of the Director's annual performance process and may provide comments and recommendations to the County Administrator for incorporation as part of the annual review process.
- 2) **Tourist Development Department Staff.** All Tourist Development Department staff shall be employees of the County, with all benefits provided

by the Board paid from the Tourist Development Trust Funds, and shall report to and be supervised by the Director. As such, said personnel will receive all standard County employee benefits paid through the Tourist Development Trust Funds, and be subject to all County employee regulations, in addition to those provided in this Manual. The designated work stations for staff shall be the business offices of the Tourist Development Department located at the County Visitors' Welcome Center and the Emerald Coast Convention Center.

A.700 **REGULAR COUNCIL MEETINGS**

The Council shall meet no less than quarterly on the fourth (4th) Wednesday of the month at 1:00 p.m., or as directed by the Chairman. Special meetings may be called by the Chairman as the need arises. The duration of each meeting will vary according to the length of the meeting agenda.

A.710 **LOCATION AND NOTICE**

Council meetings will be held at the Emerald Coast Convention Center or as otherwise designated by the Director. All meetings will be duly advertised in a newspaper of general circulation within the sub-district. Notice will also be placed on the Okaloosa County web site on the Commissioners monthly meeting calendar. Individuals wishing to receive e-mail notifications of upcoming meetings may contact the Tourist Development Department office.

A.720 **AGENDA**

An agenda will be prepared for each Council meeting by the Director. Council members wishing to place an item on an upcoming agenda must submit their request to the Director at least one (1) week prior to a regularly scheduled meeting. Department staff shall provide background information on each agenda item as appropriate, and such information shall be available to Council members at least two business days prior to a scheduled meetings.

A.730 **RULES OF PROCEDURE**

- 1) **Public Participation.** Meetings of the Council will be conducted by the Council Chairman, the Vice-Chairman, or their designee, in a manner to permit the greatest possible participation by all Council members and the interested public.
- 2) **Majority/Quorum.** The formal actions of the Council will be approved by majority vote of the Council with all members present required to vote unless

a member has abstained. Five (5) Council members shall constitute a quorum of the Council for purposes of conducting business.

- 3) **Abstention.** Any Council member desiring to abstain from voting shall publicly disclose the reason for their abstention before the vote is taken, in compliance with Section 286.012 and Chapter 112, Florida Statutes. Full disclosure must be made in writing within fifteen (15) days after the date of such meeting.
- 4) **Agenda.** The Director shall prepare and advertise an agenda for each meeting of the Council. Each meeting shall include a public comment/participation period. Requests for action stemming from any oral or written presentation from the public participation period shall be placed under consideration by the Council and acted upon at the following scheduled meeting.
- 5) **Rules.** The Council meetings shall be subject to all the procedural requirements of Chapter 286, Florida Statutes.

A.740 **MINUTES**

Written minutes shall be kept of each Council meeting. A written summary of each meeting shall be presented at the next Council meeting for approval by Council members. Such written summary shall show the persons in attendance, the major items of discussion, resolutions or other major action taken at such meetings, and items presented during public participation periods. The Council shall abide by Florida Statutes in regard to minutes and public participation. In addition, an audio-recording of each meeting shall be made and retained as a public record.

A.750 **NOTICE TO PUBLIC**

Information about the times and places of all Council meetings shall be provided in conformance with the requirements of Florida Statutes.

B.000 STANDING COMMITTEES

The only standing committee serving the Council shall be the Marketing Committee. From time to time the Council may establish *ad hoc* committee(s) for a specified task(s).

B.100 GENERAL PURPOSE

- 1) The general purpose of standing committees will be to provide information to the Council on specific areas or items of interest to the Council and to assist the Council in the implementation of County Tourist Development Plan. Committee recommendations will have no binding authority upon the Council or the County. The Marketing committee shall provide some or all of the following specific services to the Council at the request of the Council:
 - a. Review and monitoring of the creative content of the area's tourism marketing program.
 - b. Local tourism industry input to the Council or Department staff providing marketing services as well as the contracted tourism advertising and/or public relations consultants.
 - c. Review and recommendation of advertising and marketing consultants to the Council.
 - d. Review and recommendation to Council on specific tourism marketing proposals presented to the Council by private industry and non-profit organizations.
 - e. Review and make recommendations for special event funding as stipulated in the Special Event Guidelines.

B.200 SELECTION AND COMPOSITION

- 1) Individuals interested in serving on a committee shall submit a brief resume' consisting of background experience relating to a specific committee's purpose, general education and business and professional experience. The Director and the Chairman or Vice-Chairman of the Council will review the qualifications of the potential committee member(s) submitted for consideration and recommend qualified candidates for all open seats on the committee. The Council shall approve all appointments to the Marketing Committee.
- 2) The Marketing Committee should be balanced as to geographic distribution to reflect equal representation of the distinct geographic areas, age groups,

occupation, knowledge of and experience with the Committee's subject matter and the nature of each member's interest within the sub-district. It is highly recommended that there is appropriate representation from the lodging industry, attractions/museums, restaurants, retail, and marketing/advertising professionals within the tourist development taxing district. A marketing professional from the Northwest Florida Regional Airport may serve on a committee. It is recommended that a greater percentage of the committee's make-up be given to the lodging industry.

- 3) Committee vacancies, which occur during an appointed term, shall be appointed by the Council.

B.300 SERVICE AND REMOVAL

- 1) Committee members will serve for a term of two (2) fiscal years (terms can be longer depending on individual areas of expertise), (October 1 - September 30) from their original appointment. Terms will be staggered to ensure a consistent membership and continuation of Council business and recommendations. This will help foster greater participation and understanding throughout the Council's sub-district.
- 2) From time-to-time, committee members may be asked to consider an issue coming before their committee in which they have a conflict of interest. The committee members shall publicly disclose their interest and abstain from acting on that issue in the manner described by State law, Section 286.012 and Chapter 112, Florida Statute. Full disclosure must be made in writing within fifteen (15) days after such disclosure.
- 3) Any committee member shall be subject to removal from the committee if they miss three (3) regular Committee meetings during the period of one fiscal year (Oct 1st - Sept 30th) during their term. Special consideration/leniency will be given for any Acts of God, personal illness/medical, and/or family emergencies. The member will be notified of the potential removal after the third absence and the Council will vote at its next regular meeting whether to recommend removal of that member.

B.400 COMMITTEE MANAGEMENT

- 1) Committee meetings will be scheduled by the Council on an as-needed basis. The Vice Chairman of the Council shall serve as the Chairman of the Marketing committee. The Committee Chairman may schedule a meeting. Written minutes shall be kept of each committee meeting. A written summary of each meeting shall be presented at the next committee meeting for approval by committee members.

- 2) Written meeting notices will be mailed/faxed and/or e-mailed to all committee members approximately seven to ten (7-10) days in advance with follow-up calls to confirm attendance. A brief description of the purpose, subject, or program of the meeting will be contained in the notification. In order to encourage public participation at the committee level, public notice of all committee meetings will be provided in the same manner as public notices for Council meetings.
- 3) The quorum for each meeting of a standing committee shall be 50% of the total number of committee members plus one.
- 4) From time to time, "ad-hoc" committees may be appointed by the Chairman after advice from the Council to fulfill specific Council objectives which need further research and action.

C.000 PERSONNEL AND EXPENSES

C.100 PERSONNEL MATTERS

The Director shall make recommendations with respect to personnel issues and present to the County Administrator and Human Resources Director for final approval.

C.200 STATUS OF PERSONNEL

C.300 HUMAN RESOURCES POLICIES

As County employees, Tourist Development Department employees, are governed by Human Resource policies of the County in effect from time-to-time.

C.400 TRAVEL PROCEDURES

C.410 GENERAL

Travel related expense payments and/or reimbursements are governed by County Policies and Procedures applied under the provisions of Section 112.0601, Florida Statutes, as they are for all other County Departments. However, for certain travel and promotional expenses, staff is also governed by the broader provisions of Section 125.0104, Florida Statutes.

C.420 DEFINITIONS

Authorized Persons – Persons who obtain the required approval pursuant to Section C.430 of this Manual.

Class A Travel - Continuous travel of 24 hours or more away from official headquarters.

Class B Travel - Continuous travel of less than 24 hours which involves overnight absence from official headquarters.

Class C Travel - Travel for short or day trips where the traveler is not away from official headquarters overnight.

Official Headquarters - The official headquarters of an officer or employee assigned to an office shall be the city or town in which, or nearest to which, the office is located.

Travel Expenses - Usual, ordinary, and incidental expenditures that are necessarily incurred by a traveler.

Traveler - A public official, public employee, or authorized person when performing travel.

County Travel and County Expenses – Travel undertaken and/or expenses incurred by Travelers in context of usual business travel for purposes of staff development/professional education, meetings of purely professional affiliations, management of planning and construction of Product Improvement projects, staff retreats and other Manager-mandated staff Class A-C travel. Reimbursement for this travel and these expenses is governed by Section 112.061, Florida Statutes and Section C.450 of this Manual.

Promotional Travel and Promotional Expenses – Travel undertaken and/or expenses incurred by Travelers in context of advertising and promotional activities carried out pursuant to the Tourist Development Plan and annual promotional and advertising plan as approved pursuant to Section C.430 of this Manual. Reimbursement of these expenses will be subject to the limitations provided in Section 125.0104(9), Florida Statutes and Section C.500 of this Manual.

C.430 APPROVAL OF TRAVEL EXPENSES

All Council members and employees must have prior approval for travel and approval after-the-fact for actual travel expenses.

- 1) Tourist Development Department staff must receive prior approval of the Director.
- 2) The Director must receive prior approval of the County Administrator.
- 3) Council members must receive prior approval of the Board.
- 4) All foreign travel must receive prior approval of the Board.

C.440 TRAVEL FORMS

Official forms are used for travel approval and travel expenses reimbursement:

- 1) **Daily Travel Log** - This form is used only to obtain reimbursement for mileage incurred in use of a personal vehicle in local travel.
- 2) **Voucher for Reimbursement for Travel Expenses** - This form is used to account for travel advances and obtain reimbursement for all local mileage.
- 3) **Travel Requests**
 - a. Obtain advance approval for travel.
 - b. Request payment for registration for conference and conventions in advance of the actual event or as authorized under County Procedures and by Section 112.061(12), Florida Statutes, which governs authorization advances for anticipated travel costs.

C.450 REIMBURSABLE OUT-OF-COUNTY TRAVEL AND EXPENSES

Reimbursement is permitted for approved County Travel and Expenses incurred each day in conducting bona fide County tourism business, in accordance with County, State and Federal procedures. No one shall be reimbursed for any meal or lodging that is included in a convention, conference registration fee, or airline ticket.

- 1) Airline fare (at the lowest fare available) or other commercial carrier fare (ticket stub required to be attached to reimbursement request).

- 2) Any meal included in the fare must be deducted from the per diem reimbursement at the applicable rate. The approved traveler's copy of all ticket invoices shall be submitted as receipts.
- 3) Taxi, limousine, rental car (attach receipts).
- 4) Road tolls and parking fees (attach receipts).
- 5) Registration fees, however, and any meals and lodging included will be deducted in accordance with allowances provided in this policy. If available, an agenda or program schedule, along with a receipt, must be attached when requesting reimbursement.
- 6) Mileage as determined by the County (this amount may change due to Federal Standards dealing with the oil pricing Worldwide), when using personal vehicle. Mileage should be computed from the post of duty to the point of destination. Whenever possible, the mileage computation should be based on current DOT Map Mileage Chart.
- 7) Vicinity mileage will be paid when an employee, after having reached such employee's original destination, is required to travel within the County or other locations on official business.
- 8) All gifts, certificates, coupons, et cetera, received in conjunction with travel are to be turned over to the Tourist Development Department for further handling. In all cases, travel will be by the most economical means taking into account the employee's time involved and distances. If an employee, for such employee's own convenience, travels by auto which would result in more travel reimbursement than had such employee travelled by commercial means, reimbursement shall be limited to the amount had such employee traveled via commercial transportation.

C.500 **REIMBURSABLE PROMOTIONAL TRAVEL AND EXPENSES**

The Tourist Development Department is authorized and empowered to:

- 1) Provide, arrange, and make expenditures for transportation, lodging, meals, and other reasonable and necessary items and services for Tourist Development Department employees and other authorized persons, in accordance with Section C.430 of this Manual, in connection with performance of promotional, marketing, and advertising duties.
- 2) Entertainment expenses shall be authorized only when meeting with travel writers, tour brokers, or other persons connected with the tourist industry. All travel and entertainment related expenditures made pursuant to this paragraph shall be substantiated by paid receipts. Complete and detailed

justification for all travel and entertainment related expenditures made pursuant to this paragraph shall be shown on the Travel Expense Voucher and attached to same.

- 3) Transportation and other incidental expenses other than those provided in Section C.400 of this Manual shall only be authorized for the Director and designated employees of the Tourist Development Department; and other authorized persons - travel writers, tour brokers, or other persons connected with the tourist industry - when traveling pursuant to paragraph 5 below. All other transportation and incidental expenses pursuant to this paragraph shall be as provided in Section C.400 of this Manual.

- 4) Pay by reimbursement only, except as specifically authorized by the County, through the Tourist Development Department, the costs of per diem and incidental expenses of the Director and employees of the Tourist Development Department, and other authorized persons for foreign travel at the current rates as specified in the federal publication, "Standardized Regulations (Government, Civilian, Foreign Areas)." The provisions of this paragraph shall apply for the Director or other designated employee of the Tourist Development Department, traveling in foreign countries for the purposes of promoting tourism and travel to the County, if such travel expenses are approved and certified by the Board. As used in this paragraph, the term, "authorized person," shall have the same meaning as provided in Section C.420, entitled, "Authorized Travel" means all travel outside the United States. Person(s) traveling in foreign countries pursuant to this paragraph shall be entitled to reimbursement or advancement pursuant to Section C.450 (1.) of this manual.

- 5) Pay by reimbursement only, except as specifically authorized by the County, through the Tourist Development Department, the actual reasonable and necessary costs of travel, meals, lodging, and incidental expenses of the Director and designated employees of the Tourist Development Department, and other authorized persons when meeting with travel writers, tour brokers, or other persons connected with the tourist industry, and while attending or traveling in connection with travel or trade shows. With the exception of provisions concerning rates of payment, the provisions of Section C.400 of this manual are applicable to the travel described in this paragraph.

D.000 TOURIST DEVELOPMENT PLAN AND BUDGET

D.100 TOURIST DEVELOPMENT PLAN ADOPTION

- 1) The Director shall present a recommended Tourist Development Plan to the Council.

- 2) The Council shall recommend to the Board any recommended changes to the Tourist Development Plan as necessary.
- 3) Pursuant to Section 125.0104(4)(d), Florida Statutes, the County has adopted a Tourist Development Plan by ordinance enacted by the Board. The Tourist Development Plan may not be substantially amended except by ordinance enacted by an affirmative vote of a majority plus one additional member of the Board.

D.200 **BUDGET ADOPTION**

- 1) Budget Process –
 - a. Initial Draft Budget - The Director is responsible for compiling the initial draft of the proposed annual budget for presentation to the Council prior to the date for submission of the annual budget proposal to the Board. This draft shall contain, at a minimum, the following items:
 - i. Estimates of projected tax revenues for the budget period.
 - ii. Budget information for all capital projects recommended by the Council for the budget year.
 - iii. Detailed line items for all proposed expense categories.
 - iv. Recommendations on staff positions and salary
 - b. Council Review – The Council is responsible for conducting at least one public meeting before June of each year on the proposed budget recommended by the Director before transmitting its proposed budget to the County Administrator.
 - c. Board Review – The Director and/or the Chairman of the Council will present the Council's budget recommendations to the County Administrator who will utilize the recommendation in preparing the budget submission to the Board during its budget review process. The Director shall inform and update the Council on any modifications to the recommended budget. If the Council objects to any modification, the objection(s) will be presented to the Board by the Chairman of the Council or his designee.
 - d. Council Review of Final Budget - The Director will present the budget approved by the Board to the Council within a timely period of the final approval. The Council shall review the approved budget to ensure conformity with the County Tourist Development Plan and the provisions of Section 125.0104, Florida Statutes, relating to the

authorized uses of tourist development tax revenues. If the Council has any objections to the approved budget, the objection(s) shall be presented to the Board.

- e. Budget Modifications and Reserve Expenditures- The Director will be responsible for presenting any proposed modifications to approved budget line items or allocation of reserve funds during the course of the budget year which require Board action to the Council for their review. The Council will be responsible for providing its recommendation on the proposed changes to the Board.
- f. General Budget compilation and review by the Director and Council shall be governed by the relevant provisions of this manual, county budget ordinances and policy and state revenue rules and statutes. Council members shall have the support of the Director, County Finance Division staff, County Administrator and the Council Attorney in their efforts to participate fully in the budgeting process.

2) Marketing Plan

- a. In conjunction with the review of the proposed budget, the Director will be responsible for preparing a detailed Marketing Plan, which shall set forth the proposed marketing activities and expenditures for those activities for the upcoming fiscal year.
- b. The Marketing Plan shall be presented to the Council for review and recommendation. The Council's recommendations shall be presented to the Board for final approval in the form of a Resolution.
- c. All advertising/marketing expenditures made during the fiscal year shall be in conformity with the approved Marketing Plan.
- d. Any amendments to the Marketing Plan shall be reviewed and approved by the Council and the Council's recommendations shall be presented to the Board for final approval in the form of a Resolution.

D.300 **ACCOUNTS**

The Director, after consulting with the Chief Financial Officer of the County, shall establish such accounts within the County accounting system as shall be determined to be appropriate. All present tourist development tax revenues and those carried forward from year-to-year shall be placed in an interest-bearing trust fund in accordance with Florida Statutes, which shall then be re-allocated to various areas as required by Section 125.0104, Florida Statutes. In no case shall the Tourist Development Trust Funds be co-mingled with the general revenue of the County.

Intra-account transfers may be made upon recommendation in conformity with County policies and procedures.

Inter-account transfers will require a recommendation from the Council and approval by the Board by adoption of a Budget Resolution.

D.400 EXPENDITURES

- 1) All expenditures for operating expenses and capital items are to be made in conformity with established County policies.
- 2) Expenditures for acquisitions shall only be allowed utilizing the written purchase order procedures of the County's Purchasing Policy. A written purchase order will be required for the following expenditures:
 - a. A purchase order for expenditures up to \$25,000 requires approval by the Director and Purchasing Director.
 - b. A purchase order for expenditures above \$25,000 and up to \$50,000 requires approval by the Director, Purchasing Director and County Administrator.
 - c. A purchase order for services over \$50,000 requires approval by the Board.
- 3) The following procedures shall be utilized for the purchase of items:
 - a. Property being defined as fixtures and other tangible personal property of a non-consumable nature purchased with Tourist Development Trust Funds is owned by the Board and therefore, pursuant to Section 274.02, Florida Statutes, must be included in the inventory listing of Okaloosa County and tagged accordingly as required by the Auditor General.
 - b. If the purchase price of the item is \$1,000 or more, such item is defined as a "capital outlay" purchase and must be so noted.

E.000 CONTRACTS WITH THIRD PARTIES

E.100 CONTRACT SPECIFICATIONS

All functions determined by the Director and the Council to be handled by contract with third parties shall be entered into in accordance with the County's standard procedures, coordinated with the County Purchasing Department, including the issuance of Requests for Qualifications (RFQ's)

and/or Requests for Proposals (Purchase) (RFP's), required under County procedures (County Purchasing Manual and Contracts and leases Policies and Procedures Manual.

E.200 CONTRACT REQUIREMENTS

When making proposals to the Board for contracts with third parties, the Director, with advice from the Council, shall ensure that each proposed contract includes the following provisions:

- 1) The contract is made with the Board upon the recommendation of the Council and is to be administered by the Director. The Board is not bound by an agreement, unless and until it has executed the contract by a majority vote of the Board.
- 2) No modification to the contract will be binding until approved in writing by the Board.
- 3) Payments called for under the contract are subject to review by and approval of the Director and the Board in accordance with County policies and procedures and as may be required by statute.
- 4) The contracting person or company will produce written monthly and/or quarterly reports as to the status of all matters which are the subject of the contracts, and supply these to the Director for review.
- 5) All contracts and payments will be in compliance with the County's Contracts and Leases Policies and Procedures Manual and the County Purchasing Manual.
- 6) At the end of the stated term of a contract, the Council shall publicly consider whether the renewal of the contract should be competitively bid.

E.300 CONTRACT COMPLIANCE

- 1) The Director along with the County Purchasing Department shall oversee contract compliance by the contracting person or entity and make appropriate reports and recommendations to the County Administrator and the Council on a regular basis.
- 2) All contracts shall be in compliance with the County's Contracts and Leases Policies and Procedures Manual.

E.400 CONTRACT APPROVAL

No contract shall be submitted to the Board unless such contract shall have been reviewed and approved by the Director, Contracts/Lease Coordinator, Risk Manager, County Attorney and Contracts and Grants Manager, as this is required in the County's Contracts and Leases Policies and Procedures Manual, to indicate that such submission has been made and such approval has been obtained.

E.500 COMMUNICATIONS WITH CONTRACTORS

The Director shall act as liaison between the Board and contracting persons or entities. All correspondence from the Board/Council to such contracting persons or entities shall be administered by the Director, with copies of all correspondence to the County's Contracts/Lease Coordinator and the Contracts and Grants Manager.

E.600 CONTRACT PAYMENT APPROVAL PROCEDURES

- 1) Upon the approval of the budget by the Board, payments shall be made in conformity with the County Purchasing Manual.
- 2) All expenditures and payment approvals shall comply with the County's Contracts and Leases Policies and Procedures Manual and the County's Purchasing Manual.
- 3) All activities by entities under contract shall be pursuant to the written task order procedures of the County's Contract Policy. A written task order will be required for the engagement of any promotional activity or any expenditure.
 - a. A task order for services up to \$25,000 requires approval by the Director and Purchasing Director.
 - b. A task order for services above \$25,000 and up to \$50,000 requires approval by the Director, Purchasing Director and County Administrator.
 - c. A task order for services over \$50,000 requires approval by the Board.
- 4) No invoice will be processed through the Clerk's Office without the executed task order and/or purchase order approved by the respective County officials. No invoice will be approved unless the actual invoice from the vendor accompanies the invoice reflecting the acquisition of goods/services.

E.700 ADDITIONAL PROCEDURES FOR ADMINISTRATION OF ADVERTISING AND PROMOTION CONTRACT

- 1) **Review of advertising product.** While the Director is charged with the general budgeting for and administration of the annual contract for provision of advertising and promotion services for the County's tourism promotion efforts, the artistic and highly visible nature of the products and services provided under the contract make it prudent that the Director incorporate a broader base for review and approval of artistic product generated by the contractor where possible. As such, the Council may, at a duly-noticed public meeting, review and approve print, radio and television advertising product produced under any advertising or public relations contract.

- 2) **Advancement of funds.** No advancement of funds will be issued unless specifically approved by the Board.

F.000 ACTIVITIES SUBJECT TO OVERSIGHT BY THE TOURIST DEVELOPMENT COUNCIL

F.100 GENERAL

Tourist Development Trust Funds may be budgeted by the Board for the following purposes, including but not limited to:

- 1) **TOURISM PROMOTION:** Development and maintenance of quality advertising, sales, marketing and public relations initiatives for the sub-district which presents a consistent and positive brand for the area; production of informational/promotional materials and systems, including publications, that it shall determine to be necessary or appropriate for the promotion of the special taxing district, and for local notification of projects as deemed necessary; support for a variety of special events to further the development of year round business and bolster image and name recognition for the sub-district; and continual maintenance efforts to keep the beaches, waterways, accessways and other tourist destination facilities within the sub-district clean, attractive and safe for public usage.

- 2) **EMERALD COAST FILM COMMISSION:** Operation and function of the Emerald Coast Film Commission to supply staffing requirements, materials, information, photos and guides to potential members of the film, photography and television industry to enhance the sub-district by increasing the economic impact by bringing in film and production companies, which will increase employment of our area's citizens and establish our area as an entertainment ready community.

- 3) OFFICIAL VISITOR/WELCOME-INFORMATION CENTER: Operation and function of the Official Visitor/Welcome-Information Center to supply materials, information, and guidance to the visiting public to the sub-district to a) unify the taxing district's local promotion of the tourism business, b) provide information to visitors and provide information and c) to maintain a record of number of visitors and their demographics.
- 4) EMERALD COAST CONVENTION CENTER: Operation and function of the Emerald Coast Convention Center, to supply staffing requirements, materials, information, supplies, meeting facilities, operations of the center to include water, sewer, electricity, landscaping, meeting requirements of the public to enhance the area taxing district by providing a venue for cultural, educational, sport and entertainment events which will be a positive draw for visitors and establish our area as a group/convention/motorcoach area.
- 5) PRODUCT IMPROVEMENT: Maintenance and improvement of the beaches and water of the Gulf of Mexico, the Choctawhatchee Bay and other tourist destination facilities , including the improvement of public access to and use of these assets, including recreational facilities within the sub-district are essential to the preservation and improvement of the very foundation of the economy that the County is promoting.
- 6) ADMINISTRATION: Administration of the tourism tax revenues shall be through local administration by the Director of the Tourist Development Department under the direction of the County Administrator. Administration of the revenue collection process shall be carried out under a subcontract with the Okaloosa County Clerk of Court pursuant to Okaloosa County Ordinance 92-08 as amended.
- 7) RESERVE/EMERGENCY OPERATIONS: Maintenance of a reserve fund for the purpose of supplementing standard promotional functions, product improvement areas, beach maintenance efforts and for restoration of the county's beach improvements in the aftermath of a major disaster which impacts sub-district coastal areas.

G.000 SPECIAL EVENT FUNDING

G.100 PURPOSE

The goal of the Tourist Development Department's special event funding grant program is, generally, to increase tourism along the Emerald Coast, and specifically, to increase occupancy by out-of-town visitors in lodging facilities within the tourist development tax sub-district, including Destin, Fort Walton Beach, Okaloosa Island, Mary Esther and Cinco Bayou.

G.200 AUTHORIZATION

- 1) The Tourist Development Department will set aside a portion of the overall annual budget (determined on a fiscal year during the County's budget process) in a grant program to supplement the efforts of individuals, groups, and organizations planning, coordinating, and managing special events expected to directly benefit local tourism and help to increase the overall average lodging occupancy for the event's particular time period.
- 2) When funding is provided, it will be to promote and attract increased tourism and not to support on-going programs or administrative costs unless a special event can show significant potential for or continued growth year after year or residual advertising value in the form of event generated souvenirs, awards and t-shirts. Grant funds are intended to increase incremental transient lodging occupancy in the special taxing district of Destin, Okaloosa Island, Fort Walton Beach, Mary Esther, and Cinco Bayou.

G.300 PROCEDURE

The Marketing Committee will review application forms on a quarterly basis and submit recommendations for funding to the Council for approval. The Marketing Committee will review applications and schedule presentations during their meetings held in the months of January, April, July and September and submit recommendations for funding to the Council during their meetings in the same months. Special event funding application forms are available at the Tourist Development Department administrative offices located in the Welcome Center buildings on Okaloosa Island, and also on the Tourist Development Department's web site. Funding will be determined by the Council pursuant to the procedures contained in Section E.600. The number and extent of grants will be dependent upon the availability of designated funds from year to year.

The following procedures shall be used by an applicant to solicit support of a special event:

- 1) Requests for funding shall be made to the Director or his designated agent on the approved application form. All applicants shall apply for funding and submit a completed application form to the Director or designated agent by the following dates each year: January 1, April 1, July 1, and September 1. The Director or designated agent will review the application forms and then forward a copy to each member of the Marketing Committee at least one week prior to the monthly Marketing Committee meeting dates in the months listed above. Applications will be reviewed and discussed during the Marketing Committee meetings in the months of January, April, and July of each year. The Marketing Committee will then submit its recommendations

for funding to the Council for review and/or approval within the same month. Applicants will be notified at the Marketing Committee meeting or within three days after the Marketing Committee meetings listed above whether or not their special event is recommended to the Council for funding. The Marketing Committee and/or the Council reserve the right to request additional information from the applicant prior to making decisions on whether to grant funding. Applicants might be asked to make a formal presentation to either the Marketing Committee and/or the Council before the Council makes a final decision.

2) The history and experience of the applicant members and/or the organization is extremely important when the Council considers awarding grants as well as the following; the soundness and potential of the proposed or existing special event to attract tourism - to which it is realistically conceived and capable of production within the proposed time frame, the extent to which the special event includes community support and coordination of resources among local, private, and public sector groups, and the extent to which other sources of funding for the special event are identifiable and are capable of providing funding.

3) Upon recommendation from the Marketing Committee and Council approval of an application, the Council shall establish the final dollar amount of the grant.

4) If an applicant is awarded a grant, the applicant will work with the Director or their designated agent to comply with procedures for submission of invoices and distribution of allocated funds.

G.400 Special Event Grant Funding Guidelines:

- 1) **Location and accessibility of Special Event:** The Special Event must take place within Okaloosa County and must be accessible to the public.
- 2) **Advertising Requirements:** The Okaloosa County Tourist Development Council logo must appear prominently in all advertising and publicity (written and/or electronic) for the special event. Advertising and promotion must take place in areas outside of Okaloosa County to ensure that funds will be used to attract overnight visitors. Social media advertising is acceptable, but audience selection must be documented.
- 3) **Required Match:** Special Event Grant Funds awarded shall represent no more than 50% of the total cost of the event, as documented in the final event report.

- 4) **Insurance requirement:** a certificate of liability insurance, naming Okaloosa County as an additional insured, is required before any reimbursements can be made.
- 5) **Authorized uses of Special Event grant funds:**
 - a. Advertising and promotional expenses including, television, radio, newspaper, magazines, multi-media, billboards and signage (advertising must be published outside of Okaloosa County and actual ad/media is required for reimbursement);
 - b. Preparation materials, such as brochures; and
 - c. Any other appropriate expense allowable under Section 125.0104, Florida Statutes.
- 6) **Unauthorized uses of Special Event grant funds:**
 - a. Sales tax;
 - b. Annual operating expenses;
 - c. Travel expenses;
 - d. Private entertainment, lodging, food or beverages;
 - e. Any other expenses not allowable under Section 125.0104, Florida Statutes.
- 7) **Final Evaluation Report:** each organization receiving Special Event grant funds must submit a Final Evaluation Report for the Special Event, which shall contain the following information:
 - a. A brief narration of the event;
 - b. An evaluation of the economic impact the event had on Okaloosa County;
 - c. Include a breakdown of what lodging facilities were utilized and the rate and number of room nights generated by the event (copies of letters from the lodging facilities verifying room nights and rate shall be attached), any local attractions or businesses utilized as part of the event;

- d. The original and one copy of each of the invoices and cancelled checks (front and back) paid by the organization in conjunction with the event.
- e. A financial statement listing all of the revenues received and expenses paid in the course of the event.
- f. One copy of the handouts, brochures, or other material used during the event.

G.500 Special Event Grant Funding Criteria: All applications will be subject to the following evaluation criteria:

- 1) **Commitment to the expansion of tourism in Okaloosa County** – Applications must contain evidence that the Special Event:
 - a. Serves to attract out-of-county visitors generating overnight stays within Okaloosa County;
 - b. Will be marketed to the fullest extent possible in an effective and efficient manner;
 - c. Demonstrates a willingness on behalf of the applicant to work with the tourism industry.
- 2) **Soundness of proposed Special Event** – Applications must include the extent to which the project:
 - a. Has clearly identified objectives;
 - b. Has a realistic timetable for implementation;
 - c. Has additional funding sources available that will be utilized; and
 - d. Will accomplish its stated objective.
- 3) **Stability and management capacity** – Application must include:
 - a. A proven record or demonstrated capabilities of the organization to develop resources, effectively plan, organize and implement the proposed Special Event.
 - b. Documentation that the organization has a successful history of service in and to Okaloosa County;

- c. Confirmation of organization representatives and proof that the organization approved the application for Special Event Grant Funds;
 - d. Evidence of the ability of the organization to administer public grants and to prepare and deliver the necessary reports to Okaloosa County.
- 4) **Quality and uniqueness of the proposed Special Event** – the application must include documentation of the extent to which the event provides a program for Okaloosa County visitors and its residents which is of significant merit and that, without such assistance, would not take place in Okaloosa County.
- 5) In addition, applicants must answer the following questions:
- a. What added value can the Special Event create to a visitor's stay?
 - b. What incremental economic activity is stimulated through the quality of the visitor experience?
 - c. What incremental economic activity is stimulated by encouraging visitors to extend their stay?

G.600 SPONSORSHIPS

The funding of sponsorships of community, civic, cultural or other organizations shall be authorized but only where such funding will be used to promote and attract increased tourism and/or enhance and develop convention center use. Funding of sponsorships for organizations shall not be used to support on-going programs or administrative costs unless the overall activities of the organization will directly promote and attract increased tourism and/or enhance and develop convention center use.

- 1) The Tourist Development Department will set aside a portion of the overall annual budget to be available for the funding of sponsorships that meet the criteria.
- 2) The Council shall provide a recommendation of proposed sponsorships to the Board, certifying that such funding would meet the above criteria. The Board shall have final approval authority of all sponsorships.

H.000 OPERATIONS AND PROCEDURES MANUAL

The preceding Operations and Procedures manual may be revised from time-to-time upon recommendation of the Council and the approval of the Board.

Florida Lottery Financial Statement Overview

Cynthia F. O'Connell
Secretary

Joint Legislative Auditing Committee
February 4, 2013



Purpose

“...to operate the state lottery...so as to maximize revenues [for the Educational Enhancement Trust Fund] in a manner consonant with the dignity of the state and the welfare of its citizens.”

Intent

“That the lottery games be operated by a department of state government that functions as much as possible in the manner of an entrepreneurial business enterprise.”



District Office Operations

Lottery Headquarters Tallahassee

- 236 Staff

Nine District Offices Statewide

- 113 Sales Representatives
Servicing 13,400 retail locations.
- 74 Office Support Staff
Selling tickets and paying prizes to players
up to \$250,000



The Games of the Florida Lottery



Financial Highlights

Fiscal Year 2011-2012

- Record Breaking Sales Year (\$440 M higher than fiscal year 10-11)
 - Bigger & better Powerball increased Terminal sales
 - Strong Scratch-Off product offering
 - Numerous promotions to engage players
- Transfer to Education Enhancement Trust Fund higher (\$130 M) than fiscal year 2010-11
- Focus on enhancing operational efficiencies
- Balance Sheet in compliance with Statutes



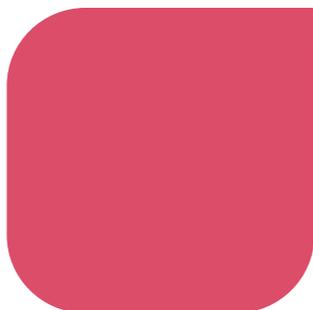
**Statement of Net Assets
(in thousands)**

Current Assets:	
Cash and cash equivalents	\$ 124,877
Interest receivable	393
Accounts receivable, net	37,295
Due from other departments	4
Prepaid expenses	69
Inventories	1,143
Security deposits	<u>2,004</u>
Total Current Assets	165,785
Noncurrent Assets:	
Restricted Assets	
Cash and cash equivalents	5,289
Securities lending income receivable	655
Deposit with MUSL	19,995
Investments, grand prize	661,254
Investments, security lending collateral	<u>603,811</u>
Total Restricted Assets	1,291,004
Capital assets, net	<u>1,356</u>
Total Noncurrent Assets	<u>1,292,360</u>
Total Assets	1,458,145



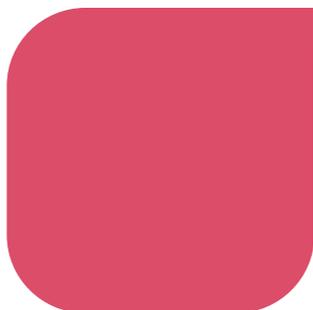
**Statement of Net Assets
(in thousands)**

Current Liabilities:	
Accounts payable and accrued liabilities	\$ 7,992
Prizes payable	96,483
Due to Educational Enhancement Trust Fund	51,604
Other	<u>2,792</u>
Total Current Liabilities	158,871
Current Liabilities Payable from Restricted Assets:	
Securities lending Obligations & fees payable	604,654
Grand prizes payable	<u>130,728</u>
Total Current Liabilities Payable from Restricted Assets	735,382
Noncurrent Liabilities:	
Grand prizes payable from restricted assets	422,297
Other long-term liabilities	<u>4,994</u>
Total Noncurrent Liabilities	427,291
Total Liabilities	1,321,544



**Statement of Net Assets
(in thousands)**

Total Current Assets	\$ 165,785
Total Noncurrent Assets	<u>1,292,360</u>
Total Assets	1,458,145
Total Current Liabilities	158,871
Total Current Liabilities Payable from Restricted Assets	735,382
Total Noncurrent Liabilities	<u>427,291</u>
Total Liabilities	1,321,544
Net Assets	
Investment in capital assets	1,356
Restricted net assets for undistributed appreciation on restricted investments	110,012
Restricted net assets for MUSL	19,995
Restricted net assets for future prizes or special prize promotions	<u>5,238</u>
Total Net Assets	136,601



Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)

Operating Revenues:	
Ticket sales	\$ 4,449,896
Bad debt expense	(1,360)
Terminal fees and miscellaneous	7,465
Retailer fees	<u>193</u>
Total Operating Revenues	4,456,194
Operating Expenses:	
Prizes	2,766,119
Retailer commissions	247,690
Scratch-Off tickets	38,906
Terminal games	27,622
Advertising	33,540
Personal services	26,139
Other contractual services	8,210
Materials and supplies	1,969
Depreciation	<u>446</u>
Total Operating Expenses	<u>3,150,641</u>
Operating Income	<u>1,305,553</u>



**Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands)**

Nonoperating Revenues (Expenses):	
Interest	\$ 5,024
Securities lending income	3,007
Securities lending fees	(824)
Investment management fees	(296)
Net appreciation (depreciation) in fair value of investments	60,221
Property disposition (loss)	(4)
Amortization of grand prizes payable	<u>(36,446)</u>
Total Nonoperating Revenues (Expenses), Net	<u>30,682</u>
Income Before Operating Transfers	1,336,235
Transfers to Educational Enhancement Trust Fund:	
Transfers from revenue and reserves	1,286,001
Transfers from unclaimed prizes	<u>35,603</u>
Total Transfers to Educational Enhancement Trust Fund	\$ 1,321,604



The Lottery Dollar

Ticket Vendor Fees: 1.5%

Prizes: 62.1%

Over **\$37.7 billion**
in player prizes life to date.

Education (EETF): 29.5%

Over **\$24 billion** to
Florida Education life to date.



Operations: 1.3%

The Florida Lottery remains one of the
most efficient lotteries in the nation.

*Operations include advertising, staff and all office
operations. As of 6/30/2012.

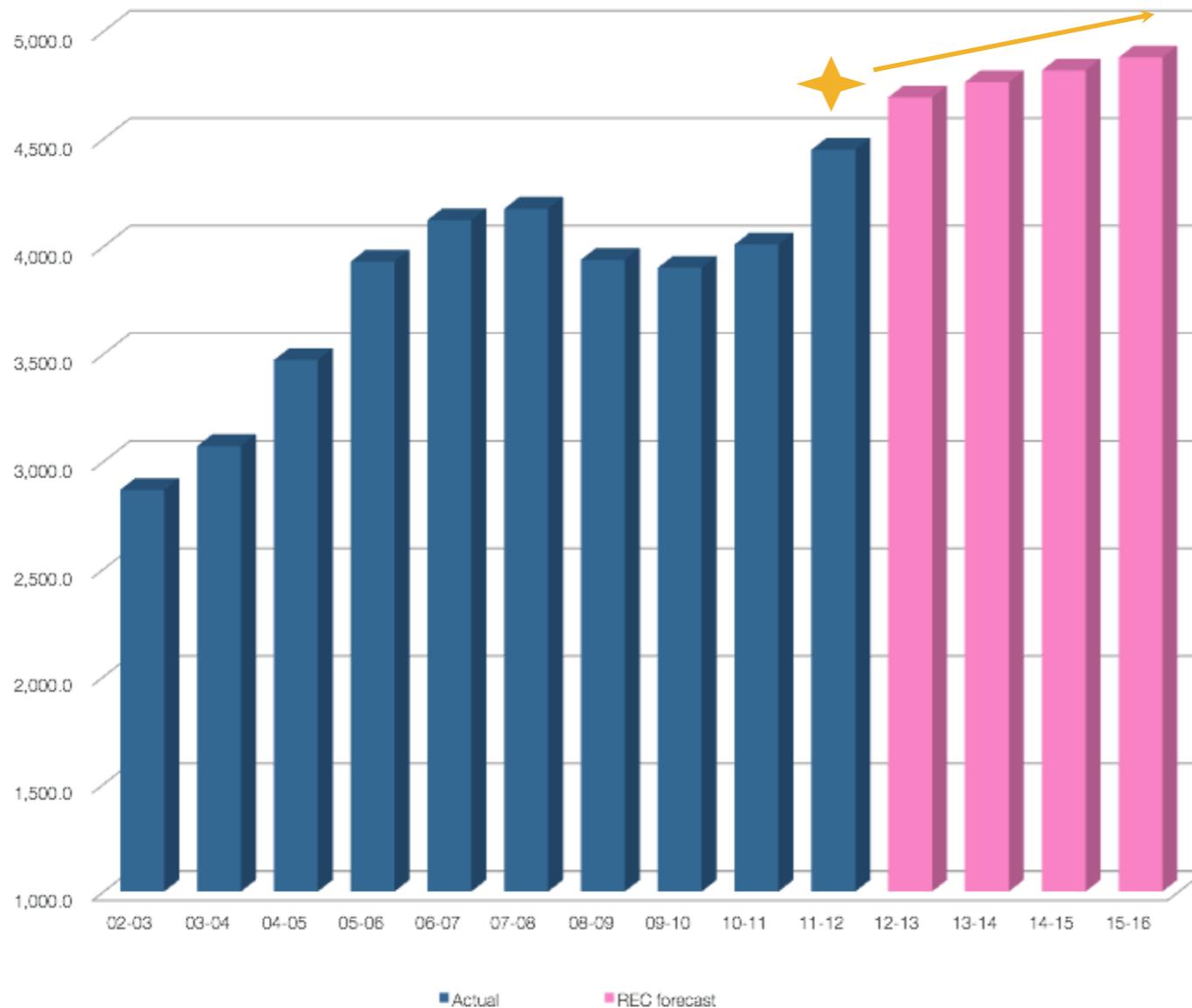
Retailer Commissions: 5.6%

Over **\$3.8 billion** to
Florida businesses life to date.

98% of Lottery Revenues are returned to the Florida economy in the form of prizes, commissions and vendor payments.

Sales Trend

(In Millions – based on actual July 2012 REC forecast)



Performance FY 12-13

Instant Ticket Sales running 19% ahead of last years sales

Terminal games exceeding prior year by 9%

\$585 M Powerball Jackpot and a \$50 M Florida Powerball winner

Strong Holiday Instant Game sales

Installed 500 Full Service Vending Machines



New Florida Lottery Record \$4.4B

2012 Sales Goal REC \$4.26B

Online 42% - Scratch Off 58%

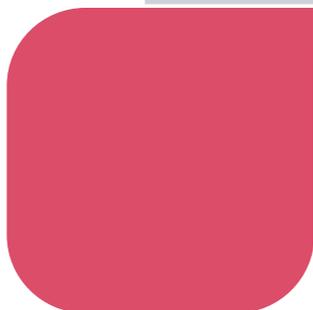


Just Imagine™ 12

Final Operating Budget for FY 2011-12

Category	Amount
Salary & Benefits	\$25,164,213
OPS	369,796
Expenses	5,914,077
Contracted Services	3,428,417
Contracted Legal Services	120,000
Risk Management Insurance	355,498
Other Capital Outlay	204,479
Law Enforcement Salary Incentives	16,060
Transfer to Division of Admin Hearings	5,853
Transfer to DMS HR Services	147,142
Data Process. Services - SSRC	82,824

Category	Amount
Terminal Games Contracts	28,385,775
Instant Ticket Contracts	37,807,000
Instant Ticket Venting Machines	5,010,600
Tenant Broker Commissions	62,751
Paid Advertising/Promotion (Media)	30,843,508
Advertising Agency Fees	2,906,945
Retailer Incentives	1,750,000
Acquisitions of Motor Vehicles	177,070
Grand Total	\$142,752,008



Vendor Support Funds

- Weekly or Monthly Vendor Deposits
 - Scientific Games Inc. (weekly)
 - GTECH Corp. (monthly)
- Market Research
 - Product, Player & Retailer
 - Public Sentiment and Confidence
 - Market Segmentation
 - Monthly Tracking
- Direct Marketing Expenses
 - Point of Sale elements
 - Retailer Ticket Display Cases
 - Misc. Advertising & Website
 - Promotional Support



	Vendor Funds		
Fiscal Year	SCI-Games	GTECH	BALANCE
2010-11	\$2,971,100	\$146,400	\$3,117,500
2011-12	\$2,847,400	\$286,700	\$3,134,100

- Lottery has residual interest in unexpended funds at contract expiration
 - Transferred to Education Enhancement Trust Fund (EETF)



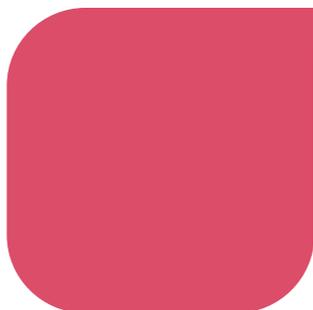
Strategy for Success

1. Deliver on the Brand Promise
 - Bigger, better, more exciting products

2. Grow Distribution Network
 - Continue efforts to grow retailer base
 - Maximize vending machines for highest returns

3. Enhance Operations - Efficiencies
 - Competitive procurements, optimize contracts & purchases
 - Empower team to work smarter and more efficiently
 - Maximize added value elements

4. Continued focus on Integrity Above All



Compliance

Statutory Requirements for Minority Participation

- Governed by Section 24.113, Florida Statutes

15% of the retailers shall be minority business enterprises (compliant)

No more than 35% of such retailers shall be owned by the same type of minority person (out of compliance)

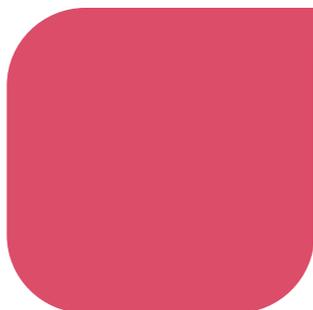
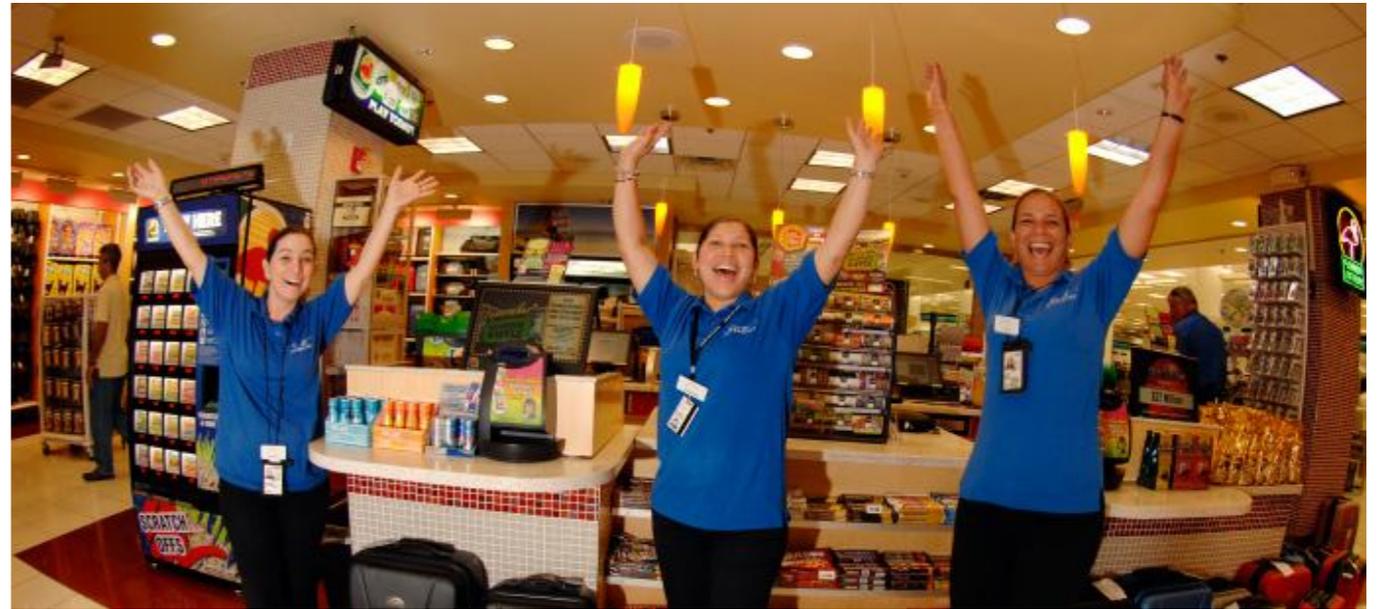
Category*	Independent	Corporate	Total	1 % of Distribution	2 % of Minority
African American	184	0	184	1.39	4
Caucasian Woman	204	3	207	1.56	5
Asian American	2,721	21	2,742	20.69	65
Hispanic American	939	103	1,042	7.86	25
Native American	<u>21</u>	<u>3</u>	<u>24</u>	<u>0.18</u>	<u>1</u>
Total Minority	4,069	130	4,199	31.68	100
Non-Minority	<u>4,069</u>	<u>4,819</u>	<u>9,056</u>	<u>68.32</u>	
Totals:	8,306	4,949	13,255	100	

* Category is self reported at the time of application

Retailers

Selection Criteria

- Valid FEIN or Social Security #
- Background Investigation
- In the selection of retailers, the Lottery considers the following factors:
 - Financial responsibility
 - Integrity and reputation
 - Sufficiency of existing retailers to serve the public convenience
 - Security of the premises
 - Accessibility of the place of business or activity to the public
 - Projected sales volume



Terminal Games System Provider – GTECH Corp.

Provides statewide system and backup system that produces all terminal game tickets as well as tracks Instant ticket inventory, validates winning tickets for payment and marks and tracks all tickets presented.

Instant Ticket and Services Provider – Scientific Games Inc.

Provides for the print production, warehousing, tele-sell services, packing and distribution of inventory for the instant tickets sold by the Lottery.

General Market Advertising Agency – St. John & Partners

Provides for media production and placement for the general markets. This includes creative concepts, story boarding, media buying and tracking, all media invoicing verification, and review prior to presentment to DFS for processing.



Major Contracts

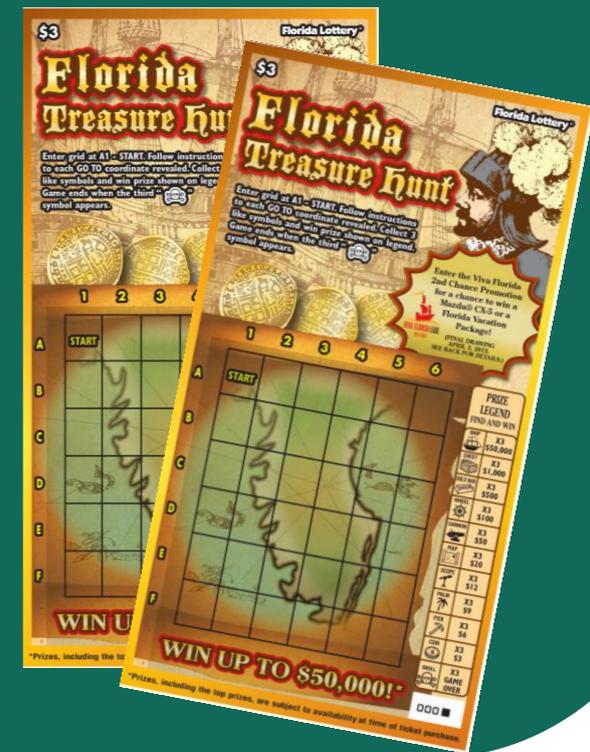


Spanish Language Advertising Agency – Machado/Garcia-Serra, LLC

Provides for media production and placement for Spanish language markets, primarily in the southern regions of the state. This includes creative concepts, story boarding, media buying and tracking, all media invoicing verification and review prior to presentment to DFS for processing.

Public Relations – Golin Harris International

This contract provides for public relations, communications and crisis management services. The services include brand research, logo development, website design, education awareness, crisis management planning and on going media and public communication projects.



Major Contracts (continued)



Business Cycle



Just Imagine[®]

Accountability

Oversight by Policy Committees: operating expenditures are monitored and appropriated by the Legislature

Weekly: Sales monitored and sales forecasts revised by EDR at least twice yearly

Monthly: Financial activities reported to Governor and legislative leadership

Quarterly: ITVM Performance Reports to Appropriations Chairmen

Annual: Financial Audit by Auditor General

Review requested by JLAC

Performance Audit by OPPAGA

Official statement update to Revenue Bonds required by SEC

Biennial: Security Audit by independent consultant required by statute

Intermittent: Program audits by Auditor General

Financial statements for bond issuances which are rated by financial rating agencies

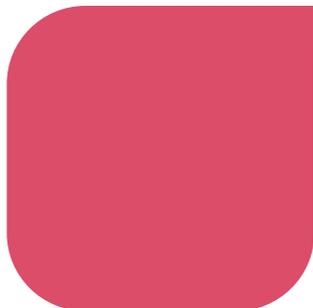
Continuous program and issue analysis by Lottery Inspector General

Weekly, Monthly, and Quarterly accomplishment and issue reports to the Governor

Efficiency Projects

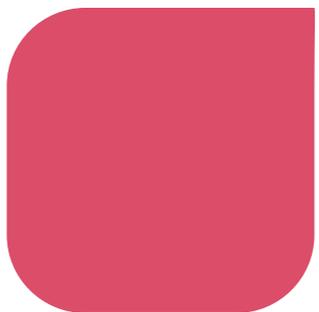
Completed, Developing, and Upcoming Initiatives

- **Internal**
 - Modernize internal IT resolution system (GET-IT)
 - Implemented Winning Number and Press Release Automation
 - Implementing a business accounting system
 - Upgraded IT infrastructure to minimize maintenance costs
 - New engaging website
- **External**
 - Deployed Menu Boards at Select Corporate Locations
 - Auto-Reorder at Corporate Levels





Questions?



**Department of the Lottery
Auditor General's Audit of
Financial Statements**



DEPARTMENT OF THE LOTTERY

Financial Audit

For the Fiscal Year Ended June 30, 2012

Audit Scope and Objectives

- ❖ Basic financial statements
- ❖ Effectiveness of internal controls
- ❖ Compliance with legal requirements

Basic Financial Statements

In our opinion, the financial statements for the FYE June 30, 2012, present fairly, in all material respects, the financial position and changes in financial position and cash flows of the Lottery in accordance with GAAP.

Internal Controls and Compliance

- In our opinion, the Lottery maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012.
- No instances of noncompliance of material consequence to the financial statements.

Audit Findings

- Information Technology Controls.
- Noncompliance with Section 24.113, F.S.
- Marketing and Research Support Funds.

Questions?

Contact Information:

Kathryn Walker, CPA
Audit Manager
Auditor General's Office
487-9085

E-mail: kathrynwalker@aud.state.fl.us

DEPARTMENT OF THE LOTTERY

Financial Audit

For the Fiscal Years Ended
June 30, 2012 and 2011



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

Secretary of the Department of the Lottery

The State of Florida, Department of the Lottery (Lottery) was established as a State agency with the enactment of the Florida Public Education Lottery Act (the Act), Chapter 24, Florida Statutes, in 1987. The head of the Lottery is the Secretary, who, pursuant to Section 20.317, Florida Statutes, is appointed by the Governor subject to the confirmation of the Senate. Cynthia F. O'Connell served as Secretary.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Robin Ralston, CPA, and the audit was supervised by Haesun Baek, CPA. Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 487-9085. For the information technology portion of this audit, the audit team leader was Suzanne Varick, CPA, and the supervisor was Tina Greene, CPA, CISA. Please address inquiries regarding the information technology portions of this report to Jonathan E. Ingram, CPA, CISA, Audit Manager, by e-mail at joningram@aud.state.fl.us or by telephone at (850) 487-9330.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF THE LOTTERY
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The financial statements prepared by the Department of the Lottery (Lottery) present fairly, in all material respects, the financial position of the Lottery as of June 30, 2012, and 2011, and the changes in the financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Summary of Report on Internal Control and Compliance

In our opinion, Lottery management maintained, in all material respects, effective internal control over financial reporting.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*; however, we noted certain additional matters as summarized below.

Additional Matters

INFORMATION TECHNOLOGY CONTROLS

Finding No. 1: During our audit, we identified the need for enhancements to the Lottery's information technology (IT) control practices. Specific details of these matters are not disclosed in this report to avoid the possibility of compromising Lottery information. However, the appropriate Lottery personnel have been notified of these issues.

MINORITY RETAILER PARTICIPATION

Finding No. 2: Section 24.113, Florida Statutes, requires that 15 percent of the Lottery's retailers shall be minority business enterprises, as defined in Section 288.703(3), Florida Statutes; however, no more than 35 percent of such retailers shall be owned by the same type of minority person, as defined by Section 288.703(4), Florida Statutes. Our audit disclosed that as of July 2, 2012, retailers comprising one minority type totaled 65 percent of the total number of minority retailers. A similar finding has been included in prior reports.

MARKETING AND RESEARCH SUPPORT FUNDS

Finding No. 3: The Lottery's Terminal ticket and Scratch-Off ticket gaming service vendors are each contractually required to make periodic deposits into marketing and research support funds (funds) maintained by the vendors. In Auditor General report No. 2007-093, we recommended that the Lottery amend the applicable provisions of each contract to include language that specifically addressed the ownership of each fund; that based on these clarifications, the Lottery reconsider the appropriateness of the budgetary and financial reporting treatments utilized for the funds; and that the Lottery more closely monitor compliance with its established purchase authorization and payment procedures. Our audit disclosed that while the Lottery had taken steps to address most of these recommendations, the Lottery had not included complete information relating to these funds in Lottery budgetary and financial reports.

Audit Objectives and Scope

Our audit objectives were to determine whether the Lottery had:

- Presented the Lottery's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, and contracts that are material to the financial statements; and
- Taken corrective actions for findings included in our report No. 2012-083.

The scope of this audit included an examination of the Lottery's basic financial statements as of and for the fiscal years ended June 30, 2012, and 2011, and an examination of the effectiveness of the Lottery's internal control over financial reporting. With respect to internal control over financial reporting, our examination included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, and contracts.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent Lottery records in connection with the application of procedures required by auditing standards generally accepted in the United States of America, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Department of the Lottery (Lottery), an enterprise fund of the State of Florida, as of and for the fiscal years ended June 30, 2012, and 2011, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and major funds of the State that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the operations of the State of Florida as of June 30, 2012, and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2012, and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial audits and attestation engagements in *Government Auditing Standards*, we have also issued a report on our examination of the Lottery's internal control over financial reporting, and on our tests of the Lottery's compliance with certain provisions of laws, rules, regulations, contracts, and other matters included under

the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. As noted by that report, dated January 22, 2013, we have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements in *Government Auditing Standards*, the Lottery's internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and expressed an unqualified opinion. With respect to compliance, the purpose of that report is not to provide an opinion on compliance, but rather to describe the scope of our testing of compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 12) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
January 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS**YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

The information presented in the Management's Discussion and Analysis (MD&A) introduces the Florida Lottery's (Lottery) financial statements and provides readers an analytical overview of the Lottery's financial activities and performance for the fiscal years ended June 30, 2012, and 2011. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

The Lottery has as its mission the maximization of revenues for the benefit of education in a manner consistent with the dignity of the State of Florida and the welfare of its citizens. The Lottery is considered a mature lottery and offers its players a full range of both Scratch-Off and Terminal (formerly referred to as On-line) products. The Lottery has been successful in sustaining ticket sales in excess of \$2 billion for the twenty-third consecutive fiscal year, with the past two fiscal years exceeding \$4 billion. During the same twenty-three year period the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of \$800 million annually, with the fiscal year 2012 transfer exceeding \$1 billion for the tenth consecutive year.

For the fiscal year ended June 30, 2012:

- Transfers to the EETF increased to approximately \$1.32 billion compared to \$1.19 billion in the prior fiscal year.
- The Lottery's ticket sales increased by 11.01% over the prior fiscal year from approximately \$4.01 billion to \$4.45 billion.
- Approximately 57.69% of total sales were provided by the Scratch-Off product line. This shift in product mix from the higher profit margin Terminal product to the lower profit margin Scratch-Off product directly impacted the amount transferred the EETF.
- Prize expense increased \$305.90 million, which represented a 12.43% increase during fiscal year 2012. The Lottery has the authority to vary the prize expense in order to maximize transfers. This expense typically increases or decreases in proportion to ticket sales and represented approximately 62.16% of net ticket sales.
- The gaming vendors' fees and retailer commissions are based on sales and therefore fluctuate in direct correlation with sales revenue. Fiscal year 2012 expenses for these items increased 9.62% over the prior fiscal year in conjunction with the increase in sales.
- Administrative operating expenses, which include advertising, salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other administrative expenses, experienced a decrease of

\$1.15 million. Administrative operating expenses for fiscal years 2012 and 2011 were \$70.30 million and \$71.45 million, respectively.

- Nonoperating income increased \$47.62 million over the prior fiscal year. Unrealized appreciation on investments accounted for \$38.56 million of the increase due to higher market values of investments of similar securities and a reduction in holdings in fiscal year 2012 compared to fiscal year 2011.
- EETF transfers from unclaimed prize money decreased \$8.4 million over the prior fiscal year. Unclaimed prize money generated by Scratch-Off games decreased significantly compared to fiscal year 2011 due to the Lottery closing 29 games during fiscal year 2012 compared to 43 games during fiscal year 2011. Unclaimed prize money generated by Terminal games increased \$2.7 million over the prior fiscal year due to the Lottery receiving \$4.01 million from the Multi-State Lottery Association (MUSL) for Florida's prorated share of an unclaimed Powerball® jackpot.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to the method used by business entities. This MD&A is intended to serve as an introduction to the Lottery's basic financial statements, including the notes to the financial statements. The Statement of Net Assets on page 13, the Statement of Revenues, Expenses, and Changes in Net Assets on page 14, and the Statement of Cash Flows on page 15 report the Lottery's net assets and changes therein. The notes to the financial statements provide additional information that is essential to a reader's understanding of the data provided in the financial statements.

The Lottery transfers its net profits each fiscal year to the EETF. As a result, the Lottery's net assets consist of funds invested in fixed capital assets and restricted assets. The restricted net assets consist of the investments being held by the Lottery to fund deferred prize payouts, 20 percent of unclaimed prizes restricted for future prize payouts or promotions, and the MUSL deposit amounts. The financial statements do include the cumulative effect of periodic adjustments to recognize the fair value of the grand prize investments despite the fact that the Lottery purchased the investments with the intention of holding the investments until maturity in order to meet the future obligations and, therefore, would not realize any gains or losses related to these investments for distribution as net proceeds.

SUMMARY OF NET ASSETS

Table 1 presents a comparative summary of the Lottery's Statement of Net Assets for fiscal years 2012, 2011, and 2010.

Table 1
Condensed Statement of Net Assets
As of June 30, 2012, 2011, and 2010
(In Thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current Assets	\$ 165,785	\$ 189,859	\$ 176,765
Restricted Assets	1,291,004	1,511,185	1,745,058
Capital Assets, Net of Depreciation	<u>1,356</u>	<u>1,248</u>	<u>1,421</u>
Total Assets	<u><u>1,458,145</u></u>	<u><u>1,702,292</u></u>	<u><u>1,923,244</u></u>
Liabilities			
Current Liabilities	158,871	184,155	171,126
Current Liabilities Payable from Restricted Assets	735,382	882,439	1,018,424
Noncurrent Liabilities	<u>427,291</u>	<u>513,728</u>	<u>599,586</u>
Total Liabilities	<u><u>1,321,544</u></u>	<u><u>1,580,322</u></u>	<u><u>1,789,136</u></u>
Net Assets			
Net Investment in Capital Assets	1,356	1,248	1,421
Restricted Net Assets	<u>135,245</u>	<u>120,722</u>	<u>132,687</u>
Total Net Assets	<u><u>\$ 136,601</u></u>	<u><u>\$ 121,970</u></u>	<u><u>\$ 134,108</u></u>

Assets

Total assets at the end of fiscal year 2012 decreased \$244.15 million from \$1.70 billion at June 30, 2011, to \$1.46 billion at June 30, 2012. At the end of fiscal year 2011, total assets were \$220.95 million less than the \$1.92 billion at the end of fiscal year 2010.

- Current assets decreased from \$189.86 million in 2011 to \$165.79 million in 2012, representing a decrease of \$24.07 million. This net decrease was primarily due to a decrease of \$39.65 million in cash and cash equivalents mostly on deposit with the State Treasurer and an increase of \$16.04 million in accounts receivable. The increase in accounts receivable for fiscal year 2012 resulted from two additional days in the billing cycle to retailers when compared to the prior year.
- Restricted assets decreased \$220.18 million from \$1.51 billion in 2011 to \$1.29 billion in 2012. This decrease was predominately due to the continued decrease in the deferred payment investment portfolio as the preference in payout options for jackpot prizewinners progressively shifted toward the cash option instead of the alternative annuity option. There were \$156.14 million in payouts of annuities and \$12.74 million in purchases of new investments in fiscal year 2012 in comparison to fiscal year 2011, which had annuity payouts of \$178.57 million, and purchases of new investments of \$25.25 million. In addition to the downward trend in the investment portfolio, there was a decrease in the fair value of the grand prize investments. The amount of invested collateral from the lending of those securities also continued to decline. The Lottery held \$603.81 million in invested collateral at June 30, 2012, \$709.87 million at June 30, 2011, and \$749.14 million at June 30, 2010.

Liabilities

Total liabilities at June 30, 2012, were \$1.32 billion, which was approximately \$258.78 million lower than the total liabilities of \$1.58 billion at June 30, 2011. The total liabilities at June 30, 2011, were \$208.81 million lower than the June 30, 2010, amount of \$1.79 billion.

- Current liabilities decreased from \$184.16 million at June 30, 2011, to \$158.87 million at June 30, 2012. This decrease can be attributed to the decrease in the amount due to the EETF at June 30, 2012.
- As expected, current liabilities from restricted assets decreased \$147.06 million from \$882.44 million at June 30, 2011, to \$735.38 million at June 30, 2012. The amount of grand prizes payable due within one year and the obligation under securities lending, which are the two primary components of this liability class, are associated with the amounts payable to jackpot winners who have chosen the deferred payment (annuity) option. The obligation under securities lending decreased by \$127.37 million and the current portion of grand prizes payable decreased by \$19.74 million. At June 30, 2011, the current liability balance of \$882.44 million was \$135.99 million less than the balance of \$1.02 billion at June 30, 2010.
- Noncurrent liabilities principally consist of the long-term portion of grand prizes payable, which represents the amount to be paid to grand prizewinners in future years. Correlative to current grand prizes payable, the long-term grand prizes payable decreased \$87.22 million from fiscal year-end 2011 to 2012 and decreased \$86.28 million from fiscal year-end 2010 to 2011.

Net Assets and Changes in Net Assets

Net assets increased \$14.63 million from June 30, 2011, to June 30, 2012. Net assets at June 30, 2012, 2011, and 2010 were \$136.60 million, \$121.97 million, and \$134.11 million, respectively. The increase was predominately due to the \$23.78 million increase in restricted net assets for undistributed appreciation on restricted investments.

The Lottery joined MUSL three years ago in order to participate in the Powerball® with Power Play® game. In accordance with MUSL's rules, the Lottery must contribute to various prize reserve funds maintained by MUSL for unforeseen prize payouts related to the Powerball with Power Play game. The Lottery's deposits in reserve funds with MUSL totaled \$19.99 million and \$15.93 million as of June 30, 2012, and June 30, 2011, respectively. Refer to Note 6 in the notes to the financial statements for further detail.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The most important element demonstrated with the Lottery's financial statements is the transfer to the EETF. Accordingly, the primary focus of these financial statements is determining net income available for transfer, rather than the change in net assets of the Lottery, which primarily reflects the changes in fair value of restricted investments.

Table 2 presents a condensed Summary of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2012, and the prior fiscal years ended June 30, 2011, and June 30, 2010, as derived from the Lottery's Statement of Revenues, Expenses, and Changes in Net Assets.

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012, 2011, and 2010
(In Thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Ticket Sales	\$ 4,449,896	\$ 4,008,716	\$ 3,900,499
Bad Debt Expense	(1,360)	(1,212)	(1,075)
Terminal & Retailer Fees and Miscellaneous	7,658	7,436	7,599
Total Operating Revenues	<u>4,456,194</u>	<u>4,014,940</u>	<u>3,907,023</u>
Operating Expenses			
Prizes	2,766,119	2,460,219	2,346,162
Retailer Commissions	247,690	223,390	216,207
Vendor Commissions	66,528	63,260	58,286
Other Expenses	70,304	71,449	71,519
Total Operating Expenses	<u>3,150,641</u>	<u>2,818,318</u>	<u>2,692,174</u>
Income from Operations	<u>1,305,553</u>	<u>1,196,622</u>	<u>1,214,849</u>
Nonoperating Revenue, Net of Expenses	<u>30,682</u>	<u>(16,942)</u>	<u>43,874</u>
Income Before Operating Transfers	1,336,235	1,179,680	1,258,723
Transfers to EETF from Revenue and Reserves	(1,286,001)	(1,147,793)	(1,203,024)
Transfers to EETF from Unclaimed Prizes	(35,603)	(44,025)	(43,770)
Total Transfers to EETF	<u>(1,321,604)</u>	<u>(1,191,818)</u>	<u>(1,246,794)</u>
Change in Net Assets	14,631	(12,138)	11,929
Net Assets, Beginning of Year	<u>121,970</u>	<u>134,108</u>	<u>122,179</u>
Net Assets, End of Year	<u>\$ 136,601</u>	<u>\$ 121,970</u>	<u>\$ 134,108</u>

Sales

For the fiscal year ended June 30, 2012, ticket sales increased by \$441.18 million over the prior fiscal year, which experienced an increase of \$108.22 million. The Terminal game sales increased 5.60% from the prior fiscal year. To offset the impact of the slow economic recovery on sales, the Lottery continued to utilize proven techniques and created new promotions and product offerings for players.

- The FLORIDA LOTTO™ with XTRA® overall sales increased 1.86% over prior fiscal year while XTRA sales increased by 16.19%. This increase can be attributed to marketing efforts that focused on brand awareness. During football season there was a FAN-TASTIC promotion for FLORIDA LOTTO with XTRA that gave qualifying players a chance to win college-specific gear from one of eight partnered college teams around Florida. The FLORIDA LOTTO with XTRA also had a jackpot that rolled over 28 times producing a \$50 million winner on December 24, 2011.

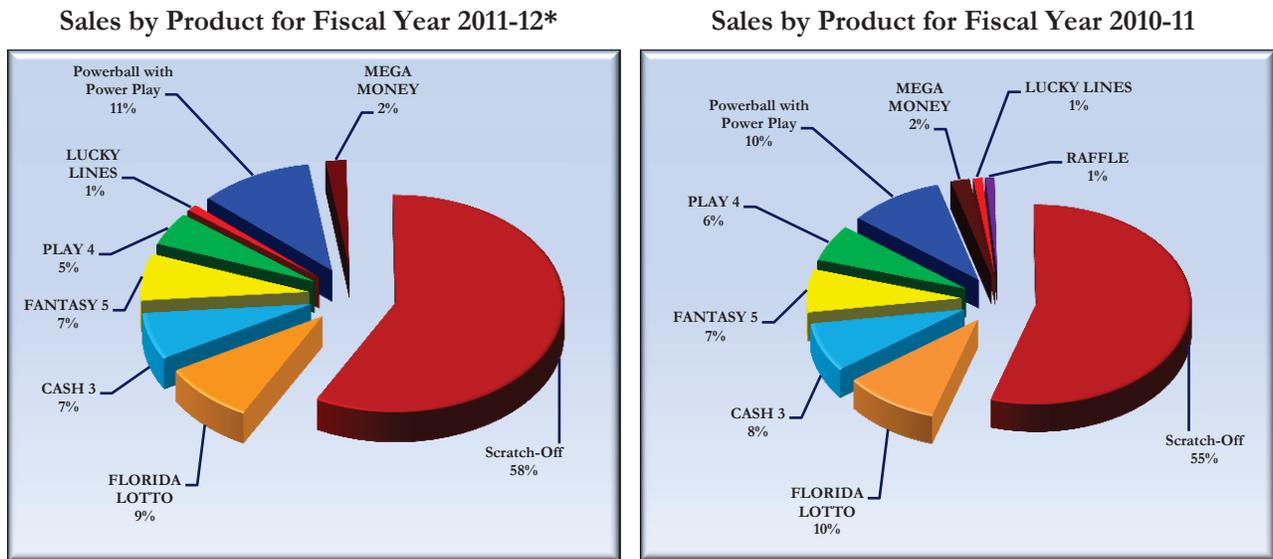
- Powerball with Power Play sales increased 28.18% over the prior fiscal year. Four times during the year the jackpot rolled to \$200 million or more. On January 15, 2012, the multi-state Powerball game was enhanced to the “Bigger, Better Powerball” game. Characteristics of the enhanced game included an increased ticket cost per play, which allowed a higher starting jackpot of \$40 million as compared to the prior \$20 million starting jackpot. The game also gave more players a chance to become a millionaire with better chances of winning.

Sales of Scratch-Off tickets increased from \$2.23 billion, or 55.52% of total ticket sales in fiscal year 2011, to \$2.57 billion, or 57.69% of total sales in fiscal year 2012.

- Scratch-Off ticket sales increased 15.34% over prior fiscal year sales, with increases in each price point. The largest increases were seen in the \$2 and \$20 price points. The \$2 price point was dominated by the MONOPOLY™ ticket sales totaling \$58.8 million. The \$20 price point was led by GOLD RUSH TRIPLER, which contributed \$370.7 million in ticket sales. In February the LUCKY FOR LIFE family was launched generating \$118.4 million in sales.
- Instant Ticket Vending Machines (ITVMs), which function similarly to other vending machines, continued to have a notable impact on Scratch-Off ticket sales. They have proven successful in increasing the visibility of Scratch-Off ticket products and offering a convenience to players. There were 1,500 machines in use during the fiscal year. Total sales from the ITVMs accounted for \$343.63 million of the Scratch-Off sales, which reflected an increase of \$86.40 million over the prior fiscal year.

Bad debt expense is reported as a reduction in gross revenue in accordance with Governmental Accounting Standards Board requirements. The amount of bad debt expense for the fiscal years ended June 30, 2012, and 2011, was \$1.36 million and \$1.21 million, respectively.

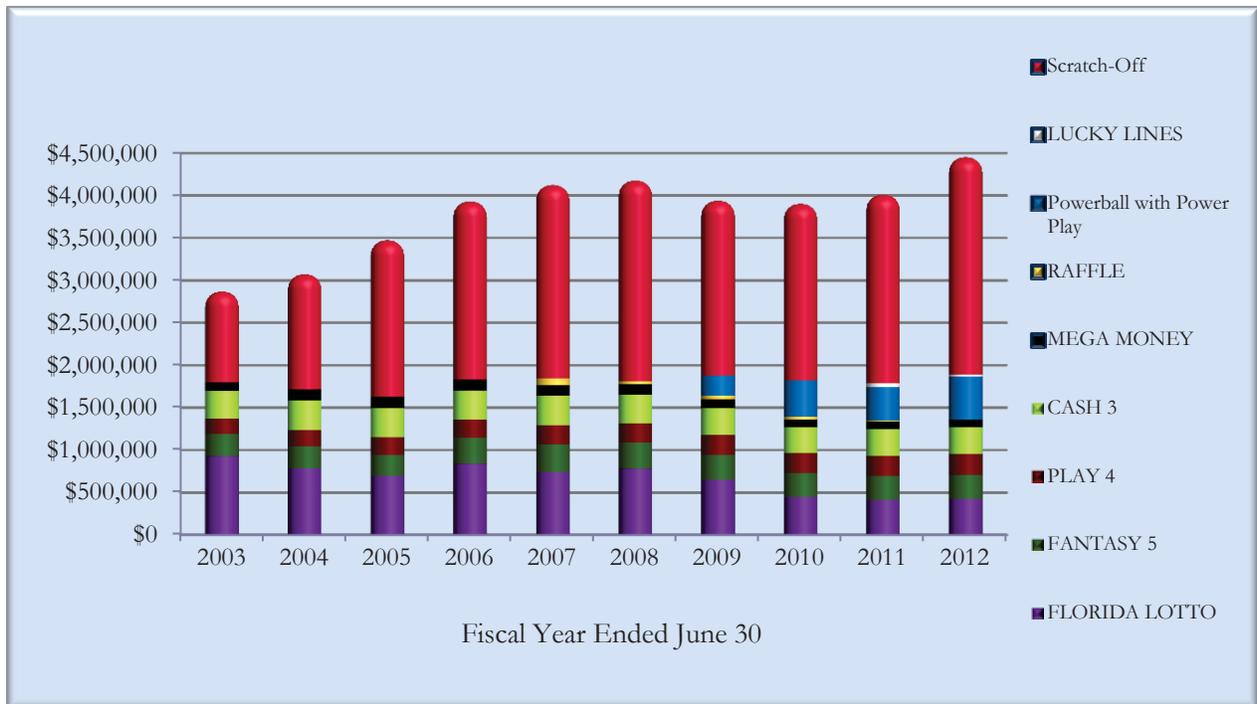
The following charts show sales by product for the various Lottery games during the fiscal years 2012 and 2011:



*Did not conduct a Raffle

The following chart and table show sales by game for the last ten fiscal years:

Department of the Lottery
 Historical Lottery Sales by Game
 (In Thousands)



**Department of the Lottery
Historical Lottery Sales By Game
Last Ten Fiscal Years
(In Thousands)**

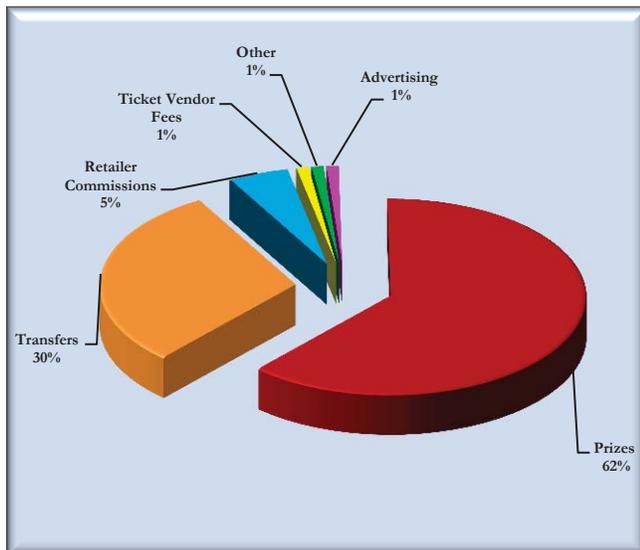
Fiscal Year Ended June 30	FLORIDA LOTTO™	FANTASY 5®	PLAY 4™	CASH 3™	MEGA MONEY™	RAFFLE™	LUCKY LINES™	Powerball® with Power Play®	Scratch- Off	Combined Sales
2003	\$ 925,474	\$ 259,999	\$ 182,716	\$ 330,001	\$ 95,930				\$ 1,073,861	\$ 2,867,981
2004	785,415	259,728	192,580	349,227	125,944				1,358,068	3,070,962
2005	689,820	252,467	206,982	345,598	131,248				1,844,619	3,470,734
2006	835,028	306,679	215,529	343,174	128,502				2,100,118	3,929,030
2007	735,585	326,241	225,285	348,694	130,142	\$ 72,549			2,283,620	4,122,116
2008	778,954	309,445	227,940	336,096	122,742	30,818			2,368,781	4,174,776
2009	650,603	287,285	238,957	320,157	102,190	41,314		\$ 233,396	2,064,135	3,938,037
2010	445,881	281,963	235,027	304,039	92,060	29,334		434,062	2,078,133	3,900,499
2011	411,389	282,777	235,692	313,270	88,971	12,603	\$ 45,369	392,969	2,225,676	4,008,716
2012	419,040	290,672	244,711	314,747	92,346		17,692	503,697	2,566,991	4,449,896

Expenses

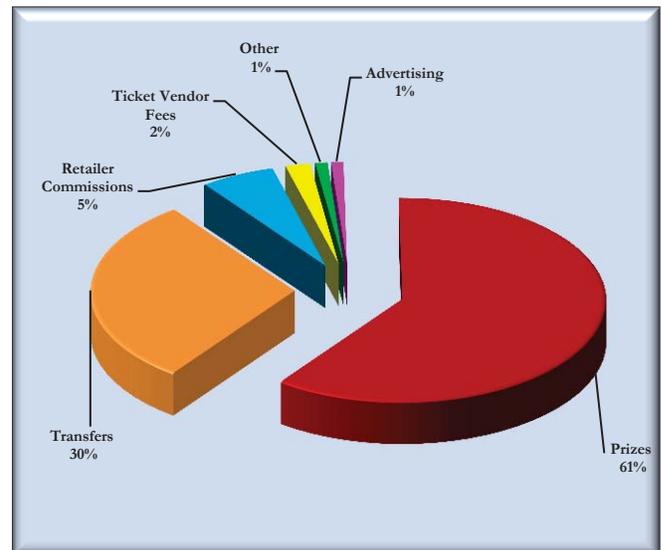
Section 24.121, Florida Statutes, stipulates that funds remaining in the Operating Trust Fund after the transfer to the EETF shall be used for the payment of administrative expenses of the Lottery. These expenses include Terminal game expenses, Scratch-Off ticket expenses, advertising, and other expenses required for the day-to-day operations of the Lottery.

The following charts show the major components of Lottery operating expenses and transfers as a percentage of ticket sales for the 2012 and 2011 fiscal years:

**Operating Expenses and Transfers
Fiscal Year 2011-12**



**Operating Expenses and Transfers
Fiscal Year 2010-11**



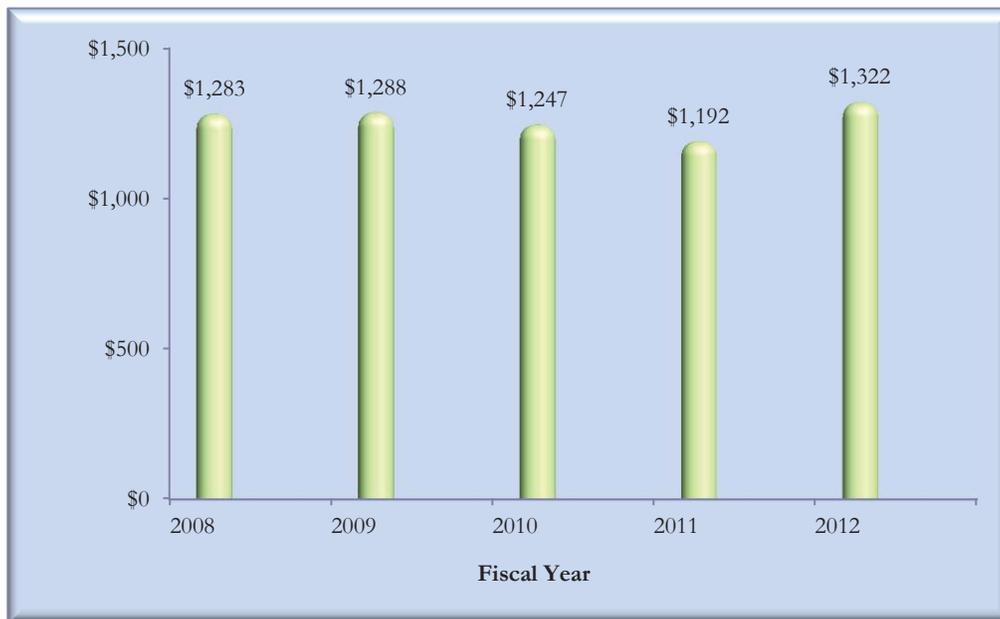
Prizes, commissions, and gaming vendor fees are directly related to ticket sales and fluctuate accordingly. In fiscal year 2012, these expenses changed proportionally; yet as a percentage of total expenses they remained constant. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, decreased slightly. Fiscal year 2012 and 2011 administrative expenses were \$70.30 million and \$71.45 million, respectively.

Transfers

Since its inception the Lottery has transferred over \$24.02 billion to the EETF. The Lottery’s contribution to the EETF for the fiscal year ended June 30, 2012, \$1.32 billion, exceeded the prior fiscal year’s contribution of \$1.19 billion, and for the tenth consecutive year the Lottery contributed over \$1 billion. With the exception of the 2010 and 2011 fiscal years, the Lottery has shown increases in transfers since fiscal year 2001.

The following chart shows the total transfers to the EETF for the past five years:

**Department of the Lottery
Total Transfers to the EETF
(In Millions)**



ECONOMIC FACTORS AND FUTURE IMPACTS

The main economic factors affecting lottery sales are population growth, personal income changes, tourism, and competition for discretionary consumer spending. The Lottery is challenged with Florida’s unemployment rate which remained above 8% during the fiscal year 2012, population growth that is expected to remain relatively flat over the next few years, and consumer confidence still recovering at a slow rate. In fiscal year 2012, Lottery sales totaled \$4.45 billion, setting new sales records for Scratch-Off, Terminal, and total game sales. The Lottery’s strategies have revolved around enhancing Terminal and Scratch-Off games, increasing retailer penetration in the State, and refreshing the Lottery’s brand.

FINANCIAL CONTACT

The Lottery's financial statements and this Management's Discussion and Analysis are designed to give a general overview to the reader. If you have any questions regarding this report or require additional information, please contact the State of Florida, Department of the Lottery, Chief Financial Officer, 250 Marriott Drive, Capitol Complex, Tallahassee, Florida 32399.

BASIC FINANCIAL STATEMENTS

DEPARTMENT OF THE LOTTERY STATEMENTS OF NET ASSETS As of June 30, 2012, and June 30, 2011 (In Thousands)

Assets	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current Assets:		
Cash and cash equivalents	\$ 124,877	\$ 164,525
Interest receivable	393	453
Accounts receivable, net	37,295	21,254
Due from other departments	4	0
Prepaid expenses	69	68
Inventories	1,143	994
Security deposits	2,004	2,565
Total Current Assets	<u>165,785</u>	<u>189,859</u>
Noncurrent Assets:		
Restricted Assets		
Cash and cash equivalents	5,289	39,774
Securities lending income receivable	655	476
Deposit with MUSL	19,995	15,926
Investments, grand prize	661,254	745,138
Investments, security lending collateral	603,811	709,871
Total Restricted Assets	<u>1,291,004</u>	<u>1,511,185</u>
Capital assets, net	1,356	1,248
Total Noncurrent Assets	<u>1,292,360</u>	<u>1,512,433</u>
Total Assets	<u>\$ 1,458,145</u>	<u>\$ 1,702,292</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 7,992	\$ 9,566
Prizes payable	96,483	89,395
Due to Educational Enhancement Trust Fund	51,604	81,818
Deposits payable	2,007	2,567
Compensated absences payable	785	809
Total Current Liabilities	<u>158,871</u>	<u>184,155</u>
Current Liabilities Payable from Restricted Assets:		
Securities lending fees payable	98	48
Obligations under securities lending	604,556	731,926
Grand prizes payable	130,728	150,465
Total Current Liabilities Payable from Restricted Assets	<u>735,382</u>	<u>882,439</u>
Noncurrent Liabilities:		
Grand prizes payable from restricted assets	422,297	509,513
Compensated absences payable	2,798	2,743
Other long-term liabilities	2,196	1,472
Total Noncurrent Liabilities	<u>427,291</u>	<u>513,728</u>
Total Liabilities	<u>1,321,544</u>	<u>1,580,322</u>
Net Assets		
Invested in capital assets	1,356	1,248
Restricted net assets for undistributed appreciation on restricted investments	110,012	86,237
Restricted net assets for MUSL	19,995	15,926
Restricted net assets for future prizes or special prize promotions	5,238	18,559
Total Net Assets	<u>\$ 136,601</u>	<u>\$ 121,970</u>

The notes to the financial statement are an integral part of this statement.

DEPARTMENT OF THE LOTTERY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2012, and June 30, 2011
(In Thousands)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Revenues:		
Ticket sales	\$ 4,449,896	\$ 4,008,716
Bad debt expense	(1,360)	(1,212)
Terminal fees and miscellaneous	7,465	7,237
Retailer fees	193	199
Total Operating Revenues	<u>4,456,194</u>	<u>4,014,940</u>
Operating Expenses:		
Prizes	2,766,119	2,460,219
Retailer commissions	247,690	223,390
Scratch-Off tickets	38,906	35,520
Terminal games	27,622	27,740
Advertising	33,540	33,159
Personal services	26,139	27,204
Other contractual services	8,210	8,855
Materials and supplies	1,969	1,921
Depreciation	446	310
Total Operating Expenses	<u>3,150,641</u>	<u>2,818,318</u>
Operating Income	<u>1,305,553</u>	<u>1,196,622</u>
Nonoperating Revenues (Expenses):		
Interest	5,024	4,893
Securities lending income	3,007	3,120
Securities lending fees	(824)	(1,400)
Investment management fees	(296)	(284)
Net appreciation (depreciation) in fair value of investments	60,221	21,662
Property disposition (loss)	(4)	(15)
Amortization of grand prizes payable	(36,446)	(44,918)
Total Nonoperating Revenues (Expenses), Net	<u>30,682</u>	<u>(16,942)</u>
Income Before Operating Transfers	1,336,235	1,179,680
Transfers to Educational Enhancement Trust Fund:		
Transfers from revenue and reserves	(1,286,001)	(1,147,793)
Transfers from unclaimed prizes	(35,603)	(44,025)
Total Transfers to Educational Enhancement Trust Fund	<u>(1,321,604)</u>	<u>(1,191,818)</u>
Change in Net Assets	14,631	(12,138)
Net Assets, Beginning of Year	121,970	134,108
Net Assets, End of Year	<u>\$ 136,601</u>	<u>\$ 121,970</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF THE LOTTERY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012, and June 30, 2011
(In Thousands)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Activities:		
Ticket sales	\$ 4,432,495	\$ 4,002,723
Prizes paid to winners	(2,763,100)	(2,472,222)
Commissions paid and payments to retailers	(247,690)	(223,390)
Paid to vendors for goods and services	(112,140)	(111,404)
Paid to employees	(25,216)	(26,753)
Other operating revenue	<u>7,658</u>	<u>7,432</u>
Net Cash Provided by Operating Activities	<u>1,292,007</u>	<u>1,176,386</u>
Noncapital Financing Activities:		
Payments to Educational Enhancement Trust Fund	<u>(1,351,818)</u>	<u>(1,169,308)</u>
Net Cash Used in Noncapital Financing Activities	<u>(1,351,818)</u>	<u>(1,169,308)</u>
Capital and Related Financing Activities:		
Purchase of capital assets	<u>(558)</u>	<u>(152)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(558)</u>	<u>(152)</u>
Investing Activities:		
Cash received from maturity of grand prize investments	156,135	178,569
Cash paid to grand prizewinners upon maturity of grand prize investments	(156,135)	(178,569)
Security lending	(21,200)	(64,266)
Investment income, net of fees	<u>7,436</u>	<u>5,907</u>
Net Cash Provided by Investing Activities	<u>(13,764)</u>	<u>(58,359)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(74,133)	(51,433)
Cash and Cash Equivalents, Beginning of Year	<u>204,299</u>	<u>255,732</u>
Cash and Cash Equivalents, End of Year	<u>\$ 130,166</u>	<u>\$ 204,299</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	\$ 1,305,553	\$ 1,196,622
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	446	310
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(19,514)	(12,223)
Inventories	(150)	27
Pre-paid expenses	(1)	(22)
Increase (decrease) in:		
Allowance for uncollectible accounts	(36)	732
Accounts payable and accrued liabilities	(2,135)	(4,004)
Prizes payable	7,088	(5,413)
Compensated absences payable	32	(125)
Postemployment healthcare benefits payable	<u>724</u>	<u>482</u>
Net Cash Provided by Operating Activities	<u>\$ 1,292,007</u>	<u>\$ 1,176,386</u>
Noncash Investing, Capital and Financing Activities:		
Increase/(decrease) in fair value of investments	\$ (38,722)	\$ (92,140)

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS**DEPARTMENT OF THE LOTTERY**
Years ended June 30, 2012, and June 30, 2011**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a. Reporting Entity**

The State of Florida, Department of the Lottery (the Lottery) was established as a State agency with the enactment of the Florida Public Education Lottery Act (the Act) in 1987. The purpose of the Act is “to implement Section 15, Article X of the State Constitution in a manner that enables the people of the State to benefit from significant additional moneys for education and also enables the people of the State to play the best lottery games available.”

In evaluating the Lottery as a reporting entity, management has addressed all potential component units for which the Lottery may be financially accountable and, as such, be includable in the Lottery’s financial statements. The Lottery is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Lottery. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Management’s analysis has disclosed no component units that should be included in the Lottery’s financial statements.

b. Basis of Presentation

The Lottery is accounted for as a proprietary type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges; or (2) where the periodic determination of net income is considered appropriate. The Lottery is reported as an enterprise fund within the State of Florida’s Comprehensive Annual Financial Report.

c. Basis of Accounting

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

The measurement focus of proprietary fund types is on a flow of economic resources method, which emphasizes the determination of net income, financial position, and cash flows. All fund assets and liabilities, current and noncurrent, are accounted for on the Statement of Net Assets. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, proprietary funds have the option to elect to apply all pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. The Lottery has elected not to apply FASB pronouncements issued after November 30, 1989, unless so directed by GASB.

The Lottery's operating revenues and expenses generally result from the sale and marketing of Lottery tickets and the payment of related prizes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d. Cash and Cash Equivalents

The Lottery considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. This includes cash in banks, repurchase agreements with financial institutions, petty cash, balances held by the State Board of Administration (SBA), and pooled investments in the State Treasury.

e. Investments

Florida Statutes authorize the Lottery to invest in certain instruments. The Lottery reports investments at fair value. Investments that are not publicly quoted are priced by a third party through a discounted cash flow method. Details of investments are included in Note 2.

f. Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on an analysis of collectability of accounts receivable, which considers the age of the accounts.

g. Inventories

Supply inventory and promotional items are valued at cost, using the first-in, first-out method. Supply inventory is comprised of game merchandise, prepaid postage, and prepaid tolls.

h. Prepaid Expenses

Prepaid expenses represent warranty agreements paid for during the current fiscal year but will not be consumed or used up until a future period.

i. Capital Assets

Capital assets are stated at cost less accumulated depreciation. As required by Chapter 273, Florida Statutes, a capitalization threshold of \$1,000 and useful life extending beyond one year are employed for tangible personal property. The Lottery's capitalization threshold for intangible assets is \$5,000. Depreciation on all capital assets is computed using the straight-line method over the following estimated useful lives:

Data processing equipment	3 to 5 years
Office furniture and fixtures	3 to 15 years
Vehicles and other equipment	3 to 20 years
Software	3 to 15 years

When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets in the period of disposal. See Note 5 for more detailed information on Capital Assets.

j. Net Assets

Net Assets includes categories for net investments in capital assets, restricted net assets for undistributed appreciation on restricted investments, restricted net assets for future prizes or special

prize promotions, restricted net assets for the Restricted Prize Pool, and restricted net assets for the Multi-State Lottery Association (MUSL). See Note 6 for more information on MUSL.

The net investments in capital assets category represents the investment in capital assets, recorded at cost less accumulated depreciation.

The restricted net assets for undistributed appreciation on restricted investments category represents the undistributed appreciation for all restricted asset accounts.

The restricted net assets for future prizes or special prize promotions category represents the portion of unclaimed prize obligations legally reverted back to the Lottery and restricted for use in the payment of future prize pools or special prize promotions in accordance with Section 24.115(2), Florida Statutes.

The restricted net assets for MUSL category represents the amount placed into reserve for the Florida Lottery by the MUSL Powerball Product Group in accordance with Rule 53ER12-6, Florida Administrative Code.

k. Revenue Recognition

Lottery games are sold to the public by contracted retailers. Revenue is recognized when Terminal game tickets are sold to players and when books of Scratch-Off tickets are settled. Certain games include tickets that entitle the holder to exchange one ticket for another (free tickets). Such tickets are deemed to be replacements and, therefore, are not included in ticket sales.

l. Commissions

Retailers receive a commission of five percent on ticket sales. The commission on ticket sales for Scratch-Off games is based upon total tickets distributed to the players (including free tickets) which, when compared to revenue, causes the percentage to be slightly higher than five percent. Additionally, retailers are paid commissions through a one percent cashing bonus on redemption of tickets (including free tickets).

m. Prizes

In accordance with the Act, variable percentages of the gross revenue from the sale of Terminal and Scratch-Off lottery tickets shall be returned to the public in the form of prizes paid by the Lottery or retailers as authorized.

Prize expense for Terminal games is recorded based on prizes won by the players, as revenue is recognized. Any prize that remains unclaimed at the end of a 180-day period following a draw is considered unclaimed.

Prize expense for Scratch-Off games is recorded based on the predetermined prize structure for each game, as revenue is recognized. Any prize that remains unclaimed 60 days after a Scratch-Off game is closed is considered unclaimed.

Effective July 1, 2005, 80 percent of all unclaimed prize money is deposited in the Educational Enhancement Trust Fund (EETF). The remaining 20 percent of unclaimed prize money is added to the pool from which future prizes are to be awarded or used for special prize promotions and is reported as restricted net assets for future prizes or special prize promotions.

All prizes are recorded at the actual amount except for the annuity-funded prizes, which are paid out on a deferred basis. The actual prize expense for these types of prizes is based on the present value of an annuity using the interest yield on the investments, which were acquired to fund the annuity.

n. *Compensated Absences*

Employees earn the right to be compensated during absences for vacation, illness, and unused special compensatory leave earned for hours worked on legal holidays. Compensated absences for annual leave are recorded as a liability when the benefits are earned. Compensated absences for sick leave are calculated based on the vesting method. Within the limits established by law or rule, unused leave benefits are paid to employees upon separation from State service. The cost of vacation and calculated sick leave benefits is accrued in the period in which earned. The compensated absences amounts are based on current fiscal year-end salary rates and include employer social security and pension contributions at current rates.

o. *Self-Insurance*

The Lottery participates in the various self-insurance programs established by the State of Florida for property and casualty losses and employee health insurance. Coverage includes property, general liability, automobile liability, workers' compensation, court-awarded attorney fees, and Federal civil rights actions. The property insurance program self-insures the first \$2 million per occurrence for all perils except named windstorm and flood. The property insurance program self-insures the first \$2 million per occurrence with an annual aggregate of \$40 million for named windstorm and flood. Commercial excess insurance is purchased for losses over the self-insured retention up to \$61 million per occurrence for named windstorm and flood losses through February 15 2012, and \$50 million beginning February 15, 2012, and \$200 million per occurrence for all other perils. Workers' compensation is provided to comply with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents.

p. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, restricted net assets, revenues, and expenses, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

q. *Bad Debt Expense*

Bad debt expense is reported as a reduction in gross revenue. Bad debt expense is recognized when a Lottery retailer's uncollected revenue is past due. The amount of expense is based on an accounts receivable age analysis. The bad debt expense for the fiscal years ended June 30, 2012, and June 30, 2011, was \$1,360,000 and \$1,212,000, respectively.

2. *CASH AND INVESTMENTS***a. *Cash and Cash Equivalents***

Cash is held in demand deposits at various financial institutions. These deposits, with a book value of approximately \$449,000 at June 30, 2012, and \$617,000 at June 30, 2011, were insured by either the State's collateral for public deposits in accordance with Section 280.04, Florida Statutes, or Federal depository insurance.

Chapter 280, Florida Statutes, generally requires public funds to be deposited in a Qualified Public Depository, which is a bank or savings association that is designated by the State of Florida Chief Financial Officer (State CFO) as authorized to receive deposits in the State and that meets the collateral requirements. The State CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository following guidelines outlined in Section 280.04, Florida Statutes, and Chapter 69C-2, Florida Administrative Code. Collateral pledging levels include 25, 50, 125, and 200

percent of a Qualified Public Depository's average daily deposit balance or, if needed, an amount as prescribed by the State CFO. Collateral may be held by another custodian with approval of the State CFO if conditions are met that protect the State's interest. Eligible collateral includes federal, federally-guaranteed, state and local government obligations, corporate bonds, and other securities designated allowable under conditions set by the State CFO.

Florida Statutes provide that if a loss to public depositors is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other Qualified Public Depositories of the same type as the depository in default.

Due to the investing policy of the Lottery, book overdrafts were approximately \$2,796,000 at June 30, 2012, and \$2,059,000 at June 30, 2011, representing outstanding prize payment checks and retailer payment checks. These outstanding checks are included as a component of prizes payable and accounts payable. The Lottery has an agreement with a financial institution to honor prize payments and retailer payments, as they are presented to the bank, up to \$75 million.

Surplus cash is maintained in the State Treasury's general pool of investments. The State CFO pools funds from all agencies. Included in the pool are primarily time deposits, U.S. Government securities, federal agency securities, commercial paper, corporate bonds and notes, and repurchase agreements. The Lottery's share of this investment pool was approximately \$129,716,000 and \$182,482,000 at June 30, 2012, and 2011, respectively. No allocation will be made as to the Lottery's share of the types of investments or their risk categories. The Lottery's share of the assets and liabilities arising from the securities lending agreements administered by the State Treasury will likewise not be carried on the Statement of Net Assets since the State Treasury operates on a pooled basis and to do so may give the misleading impression that the Lottery itself has entered into such agreements. For further information, refer to the State of Florida's Comprehensive Annual Financial Report or publications of the State of Florida Department of Financial Services, Office of the Chief Financial Officer.

b. Investments, Grand Prize

The grand prize investments primarily consist of U.S. Government obligations held on the Lottery's behalf by the SBA. Grand prize investments and related grand prizes payable are not presented in current assets or liabilities. They are not part of current operations but instead are restricted assets and liabilities that are held by the Lottery for grand prize winnings to be paid on a deferred basis if the cash payment option is not selected.

Grand prize investments are shown at fair value, and the related grand prizes payable are adjusted to the net present value using the yield on the investments. The difference between the fair value of the investments and the net present value of the grand prizes payable is reflected as a restriction for undistributed appreciation on investments in net assets. This represents the unrealized gains on the investments. Because these investments are held restrictively for grand prizewinners, this balance is not available for transfer to the EETF.

Interest accreted on grand prize investments during the fiscal year is reflected as an increase in the carrying value of grand prizes payable on the Statement of Net Assets, and as a nonoperating revenue/(expense) on the Statement of Revenues, Expenses, and Changes in Net Assets. Net appreciation/(depreciation) in fair value of investments is reflected as a nonoperating revenue/(expense) on the Statement of Revenues, Expenses, and Changes in Net Assets, and takes into account all changes in fair value that occurred during the fiscal year, including purchases, maturities, and sales.

c. Investments, Security Lending Collateral

These investments consist of the fair value of investments made with cash collateral held by the SBA on the Lottery’s behalf as part of a securities lending program.

The SBA, authorized by Section 215.47, Florida Statutes, participates in a security lending program involving grand prize investments. The Lottery, through the SBA, loans various securities to borrowers for collateral with a simultaneous agreement to return collateral for the same securities in the future. Collateral received from borrowers may be cash or U.S. Government securities. The SBA is contractually limited from pledging or selling collateral except in the event of borrower default. The contract with the lending agent requires it to indemnify the SBA if the borrowers fail to return the underlying securities or fail to pay income distributions on them. No significant violations of legal or contractual provisions occurred, and no losses resulted from borrower or lending agent defaults.

The Bank of New York Mellon (Mellon) is the agent for lending U.S. Treasury securities to various authorized brokers for cash or U.S. Government securities. Initially, collateral received shall be in the form of cash at 100 percent, or other securities valued at 102 percent, of the fair value of the securities loaned as required by the lending agreement. Borrowers must be approved for lending by Mellon’s credit department. Mellon monitors the fair value of collateral provided and the securities on loan on a daily basis. Additional collateral is required if the fair value of the collateral for any loan is less than 100 percent of the fair value of the securities provided for such loan. The SBA had no credit risk exposure to borrowers at fiscal year-end.

The SBA had received \$604,556,000 of cash collateral for the lending program as of June 30, 2012, and \$731,926,000 as of June 30, 2011. At June 30, 2012, and June 30, 2011, the collateral that was held for the securities lending transactions exceeded the fair value of the securities underlying the agreements (including accrued interest). The cash was invested in securities authorized by the lending agreement. Authorized securities include primarily certificates of deposit, corporate and medium term notes, asset-backed securities, and repurchase agreements. The invested cash collateral generally has a shorter maturity than the securities on loan.

A risk factor associated with this lending agreement is the potential for declines in the value of the invested holdings purchased with the cash collateral. If these investments must be liquidated, any shortfall between the value of the investments and the securities lending obligation becomes the responsibility of the Lottery. As of June 30, 2012, and June 30, 2011, the potential unrealized shortfall was \$406,000 and \$712,000, respectively.

Other risk factors associated with security lending include counterparty default and failure of the custodial bank to indemnify the Lottery.

Securities lending income and expenses for the years ended June 30, 2012, and 2011, consisted of (in thousands):

	<u>2012</u>	<u>2011</u>
Securities lending income	\$ 3,007	\$ 3,120
Less broker rebates	(748)	(1,323)
Less bank fees	(76)	(77)
Net securities lending revenue	<u>\$ 2,183</u>	<u>\$ 1,720</u>

d. Investment Credit Risk

Lottery grand prizewinner investments have been limited to U.S. Government guaranteed securities.

The State Treasury Investment Pool's current rating by Standard and Poor's is A+f as of June 30, 2012.

Listed below are the Standard and Poor's credit ratings for the lending program's invested cash collateral (in thousands):

As of June 30, 2012

Investment Type	Standard and Poor's Credit Rating						Totals
	AAA	AA	A	CCC	A-1	NR	
Certificates of Deposit	\$ -	\$ 10,414	\$ -	\$ -	\$ -	\$ 174,853	\$ 185,267
Commercial Paper	-	-	-	-	65,481	-	65,481
Domestic Corporate Bonds & Notes	6,615	26,863	56,129	-	-	-	89,607
Domestic Non-government Asset-backed Securities	53,946	-	-	169	-	6,100	60,215
Domestic Non-government Backed CMO's	3,907	-	-	-	-	-	3,907
International Corporate Bonds & Notes	-	37,342	2,470	-	-	-	39,812
International Non-government Asset-backed Securities	25,403	-	-	-	-	-	25,403
International Non-government Backed CMO's	-	-	14,156	-	-	-	14,156
Repurchase Agreements	-	-	-	-	-	111,132	111,132
U.S. Government Securities ¹	-	-	-	-	-	8,831	8,831
Grand Total	\$ 89,871	\$ 74,619	\$ 72,755	\$ 169	\$ 65,481	\$ 300,916	\$ 603,811

¹ U.S. Treasury Obligations do not carry individual security ratings, but carried overall ratings of AA⁺ by Standard and Poor's as of June 30, 2012.

As of June 30, 2011

Investment Type	Standard and Poor's Credit Rating							Totals
	AAA	AA	A	BBB	B	A-1	NR	
Certificates of Deposit	\$ -	\$ 27,623	\$ 4,005	\$ -	\$ -	\$ -	\$ 200,736	\$ 232,364
Commercial Paper	-	-	-	-	-	114,603	-	114,603
Domestic Corporate Bonds & Notes	6,601	34,116	37,697	-	-	-	-	78,414
Domestic Non-government Asset-backed Securities	54,552	4,801	-	1,842	670	-	680	62,545
Domestic Non-government Backed CMO's	4,311	-	-	-	-	-	-	4,311
International Corporate Bonds & Notes	-	42,032	-	-	-	-	19,302	61,334
International Non-government Asset-backed Securities	11,953	-	-	-	-	-	-	11,953
International Non-government Backed CMO's	18,726	-	-	-	-	-	-	18,726
Repurchase Agreements	-	-	-	-	-	-	125,621	125,621
Grand Total	\$ 96,143	\$ 108,572	\$ 41,702	\$ 1,842	\$ 670	\$ 114,603	\$ 346,339	\$ 709,871

e. Investment Interest Rate Risk

The investment policy objective is to match maturities of investments with the maturities of the lottery winner annuities. Therefore, investments are held to maturity after they are purchased thereby eliminating interest rate risk. Listed below are the Lottery's investments in U.S. Treasury Strips (in thousands):

As of June 30, 2012		As of June 30, 2011	
Time to Maturity	Fair Value	Time to Maturity	Fair Value
< 1 year	\$ 134,842	< 1 year	\$ 156,020
> 1 year to 3 years	195,451	> 1 year to 3 years	243,347
> 3 years to 5 years	105,302	> 3 years to 5 years	140,468
> 5 years to 10 years	87,497	> 5 years to 10 years	98,300
> 10 years to 15 years	77,072	> 10 years to 15 years	58,102
> 15 years to 20 years	47,787	> 15 years to 20 years	41,074
> 20 years to 25 years	8,985	> 20 years to 25 years	5,411
> 25 years	4,318	> 25 years	2,416
Total	\$ 661,254	Total	\$ 745,138

The Lottery contracts with the SBA to execute the securities lending program. The securities lending authorization agreement between Mellon and the SBA requires that the maximum weighted average portfolio maturity not exceed 90 days. The lending program invests a significant amount of its assets in floating rate securities and limits the maximum reset period for interest rate changes to six months. Next reset dates are used in the calculation of weighted average maturity. Listed below are the weighted average maturities for the lending program's invested cash collateral:

Investment Type	June 30, 2012		June 30, 2011	
	Fair Value (Thousands)	Weighted Average Maturity (Days)	Fair Value (Thousands)	Weighted Average Maturity (Days)
Certificates of Deposit	\$ 185,267	43	\$ 232,364	55
Commercial Paper	65,481	47	114,603	53
Domestic Corporate Bonds & Notes	89,607	42	78,414	37
Domestic Non-government Asset-backed Securities	60,215	23	62,545	16
Domestic Non-government Backed CMO's	3,907	6	4,311	6
International Corporate Bonds & Notes	39,812	55	61,334	58
International Non-government Asset-backed Securities	25,403	16	11,953	16
International Non-government Backed CMO's	14,156	20	18,726	20
Repurchase Agreements	111,132	2	125,621	1
U.S. Government Securities	8,831	107	-	-
Total Fair Value	\$ 603,811		\$ 709,871	
Portfolio weighted average maturity		33		38

The effective duration of the State Treasury Investment Pool at June 30, 2012, and June 30, 2011, was approximately 2.38 years and 2.13 years, respectively.

f. Investment Concentration of Credit Risk

Since all long-term investments (other than in the securities lending program) are in U.S. Government-guaranteed securities, the Lottery has not adopted a policy regarding concentration of credit risk. The securities lending program has established investment concentration of credit risk policies that limit the aggregate exposure to any one issuer or guarantor that is not the U.S. Government or guaranteed by the U.S. Government to 10 percent of the book value of the lending program's invested cash collateral. No invested cash collateral exceeded the 10 percent limitation.

g. Investment Custodial Credit Risk

Custodial credit risk is defined as the risk that an entity may not recover securities held by another party. The Lottery does not have a formal policy regarding custodial credit risk. The custodian for the SBA-administered lending program is also the counterparty to the investment transactions. Therefore, the amount of investments subject to investment custodial credit risk at June 30, 2012, and June 30, 2011, was \$603,811,000 and \$709,871,000, respectively.

At June 30, 2012, and June 30, 2011, all non-lending investments held were either insured or registered and held by the Lottery or its agents in the Lottery's name and thus were not subject to custodial credit risk.

h. Foreign Currency Risk

The Lottery had no exposure to foreign currency risk at June 30, 2012, and June 30, 2011.

i. Investment Summary

The following schedule summarizes all investments and investments loaned under securities lending agreements at June 30 (in thousands):

Investment Type	June 30, 2012 Carrying Value	June 30, 2011 Carrying Value
Commercial Paper	\$ 65,481	\$ 114,603
Certificates of Deposit	185,267	232,364
Repurchase Agreements	111,132	125,621
U.S. Government Obligations & Federally Guaranteed Obligations	80,223	29,221
Domestic Corporate Bonds & Notes	89,607	78,414
Domestic Non-government Asset-backed Securities	60,215	62,545
International Corporate Bonds & Notes	39,812	61,334
International Non-government Asset-backed Securities	25,403	11,953
Domestic Non-government Backed CMO's	3,907	4,311
International Non-government Backed CMO's	14,156	18,726
Investments Held by Others Under Securities Lending Agreements - U.S. Obligations	589,862	715,917
Pooled Investments with State Treasury	129,717	182,482
Total Investments	\$ 1,394,782	\$ 1,637,491

The following schedules reconcile cash and investments to the Statement of Net Assets at June 30 (in thousands):

	June 30, 2012			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Total
Cash and cash equivalents	\$ 124,479	\$ 347	\$ 51	\$ 124,877
Restricted cash and cash equivalents	5,238	51	-	5,289
Investments, grand prize	661,254	-	-	661,254
Investments, security lending collateral	603,811	-	-	603,811
Total	\$ 1,394,782	\$ 398	\$ 51	\$ 1,395,231

	June 30, 2011			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Total
Cash and cash equivalents	\$ 163,923	\$ 398	\$ 204	\$ 164,525
Restricted cash and cash equivalents	18,559	21,215	-	39,774
Investments, grand prize	745,138	-	-	745,138
Investments, security lending collateral	709,871	-	-	709,871
Total	\$ 1,637,491	\$ 21,613	\$ 204	\$ 1,659,308

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consisted of (in thousands):

	2012	2011
Ticket sales receivable	\$ 39,594	\$ 23,568
Other receivables	29	50
Total receivables	39,623	23,618
Less allowance for doubtful accounts	(2,328)	(2,364)
Accounts receivable, net	\$ 37,295	\$ 21,254

4. SECURITY DEPOSITS AND DEPOSITS PAYABLE

The Lottery receives certificates of deposit and cashier's checks from certain vendors and retailers in order to secure contract performance. Certificates of deposit are held in trust by the State with any interest earnings being credited to the vendor or retailer. Cashier's checks are held as cash by the Lottery. These deposits are established to reduce the potential financial risk to the Lottery in the event of a breach of contract. The certificates appear on the Statement of Net Assets, in assets as security deposits, and in liabilities, as deposits payable. The checks appear on the Statement of Net Assets, in assets as cash, and in liabilities, as deposits payable.

5. CAPITAL ASSETS

Capital assets at June 30 consisted of (in thousands):

	Balance 30-Jun-10	2010-11		Balance 30-Jun-11	2011-12		Balance 30-Jun-12
		Increase	Decrease		Increase	Decrease	
Data processing equipment	\$ 3,958	\$ 7	\$ (152)	\$ 3,813	\$ 3	\$ (123)	\$ 3,693
Office equipment and fixtures	5,851	82	(226)	5,707	249	(157)	5,799
Vehicles and other equipment	3,034	11	(63)	2,982	250	(31)	3,201
Software and other intangibles	651	52	-	703	60	-	763
	<u>13,494</u>	<u>152</u>	<u>(441)</u>	<u>13,205</u>	<u>562</u>	<u>(311)</u>	<u>13,456</u>
Less accumulated depreciation	<u>12,073</u>	<u>310</u>	<u>(426)</u>	<u>11,957</u>	<u>720</u>	<u>(577)</u>	<u>12,100</u>
Total capital assets, net	<u>\$ 1,421</u>	<u>\$ (158)</u>	<u>\$ (15)</u>	<u>\$ 1,248</u>	<u>\$ (158)</u>	<u>\$ 266</u>	<u>\$ 1,356</u>

6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL included 31 state lottery entities, the District of Columbia, and the Virgin Islands during fiscal year 2011-12. This association offers the Powerball with Power Play Terminal game and several other Terminal games in participating states. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize payments. MUSL periodically reallocates the prize reserve funds among the states based on relative Powerball with Power Play sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), will be returned to the Lottery upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the fund.

As of June 30, 2012, and June 30, 2011, the Lottery had deposits with MUSL of \$19,995,144, and \$15,926,144, respectively, representing the Lottery's deposits of reserve funds.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

7. LONG-TERM LIABILITIES**a. Grand Prizes Payable**

Grand prizes payable at June 30 consisted of (in thousands):

	<u>2012</u>	<u>2011</u>
FLORIDA LOTTO grand prizes (face value)	\$ 662,012	\$ 815,283
MEGA MONEY grand prizes (face value)	8,796	7,590
Win for Life grand prizes (face value)	11,930	12,294
Flamingo Fortune Game Show grand prizes (face value)	600	700
Win a Million grand prizes (face value)	300	350
Yearly Bonus grand prizes (face value)	50	100
Lucky for Life grand prizes (face value)	21,750	24,500
Set for Life grand prizes (face value)	2,100	2,280
Cash Spectacular grand prizes (face value)	550	600
Cash for Life grand prizes (face value)	210	220
Loaded for Life grand prizes (face value)	2,850	2,950
Billion Dollar Blockbuster grand prizes (face value)	8,000	8,500
Gas for Life grand prizes (face value)	186	192
2 Million Dollar Casino Action grand prizes (face value)	1,800	-
Million Dollar Holiday grand prizes (face value)	950	-
Week for Life grand prizes (face value)	13,650	-
Monopoly grand prizes (face value)	2,850	-
Less imputed interest	<u>(185,559)</u>	<u>(215,581)</u>
Net present value of grand prizes payable	<u>\$ 553,025</u>	<u>\$ 659,978</u>
Current prizes payable from restricted assets	\$ 130,728	\$ 150,465
Noncurrent prizes payable from restricted assets	<u>422,297</u>	<u>509,513</u>
Total grand prizes payable	<u>\$ 553,025</u>	<u>\$ 659,978</u>

The following depicts by fiscal year the value (in thousands) of the grand prize annuities to pay prizewinners:

<u>Year Ended June 30</u>	<u>Amount</u>
2013	\$ 134,951
2014	112,142
2015	84,655
2016	64,750
2017	43,188
2018-2022	96,465
2023-2027	101,810
2028-2032	74,178
2033-2037	16,856
2038-2041	<u>9,589</u>
Grand prizes (face value)	738,584
Less imputed interest	<u>(185,559)</u>
Net present value of grand prizes payable	<u>\$ 553,025</u>

b. Compensated Absences Payable

Compensated absences payable at June 30 consisted of (in thousands):

	<u>2012</u>	<u>2011</u>
Current compensated absences	\$ 785	\$ 809
Noncurrent compensated absences	<u>2,798</u>	<u>2,743</u>
Total	<u>\$ 3,583</u>	<u>\$ 3,552</u>

c. Changes in Long-Term Liabilities

Changes in long-term liabilities are summarized as follows (in thousands):

	2011-2012				
	Balance	Additions	Reductions	Balance	Amount
	June 30, 2011			June 30, 2012	Due Within One Year
Grand prizes payable	\$ 659,978	\$ 49,182	\$ (156,135)	\$ 553,025	\$ 130,728
Compensated absences payable	3,552	1,635	(1,604)	3,583	785
Postemployment healthcare benefits payable	1,472	724	-	2,196	-
Total long-term liabilities	\$ 665,002	\$ 51,541	\$ (157,739)	\$ 558,804	\$ 131,513

	2010-2011				
	Balance June	Additions	Reductions	Balance	Amount
	30, 2010			June 30, 2011	Due Within One Year
Grand prizes payable	\$ 768,381	\$ 70,166	\$ (178,569)	\$ 659,978	\$ 150,465
Compensated absences payable	3,677	1,407	(1,532)	3,552	809
Postemployment healthcare benefits payable	990	482	-	1,472	-
Total long-term liabilities	\$ 773,048	\$ 72,055	\$ (180,101)	\$ 665,002	\$ 151,274

See Note 9 for additional information regarding the postemployment healthcare benefits payable.

8. DUE TO EDUCATIONAL ENHANCEMENT TRUST FUND

In accordance with the Act, effective July 1, 2005, variable percentages of the gross revenue from the sale of Terminal games and Scratch-Off lottery tickets as determined by the Lottery, and other earned revenue, excluding application processing fees, shall be deposited in the Educational Enhancement Trust Fund (EETF) as provided in Section 24.121, Florida Statutes, as amended. The amount transferred for the fiscal year ended June 30, 2012, was \$1,321,604,000 (29.7 percent of revenues), and for the fiscal year ended June 30, 2011, the transferred amount was \$1,191,818,000 (29.7 percent of revenues).

Because the net appreciation in fair value of investments and amortization of grand prizes payable, included in nonoperating revenues and expenses, relate to valuations of the restricted grand prize investments and grand prizes payable, they are excluded from the determination of transfers to the EETF.

Effective July 1, 2005, provisions of the Act relating to the allocation of revenues for public education were revised. The changes in the provisions were designed to maximize the transfers of moneys to the EETF. These revisions resulted in changes in the methodology used to calculate the transfer based on a business model of revenues minus expenses rather than a percent of revenue.

The amount due to the EETF at June 30, 2012, and June 30, 2011, was as follows (in thousands):

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Terminal ticket sales	\$ 1,882,905	\$ 1,783,040
Average percent transferred	39%	38%
Transfer of Terminal ticket sales	<u>729,820</u>	<u>678,540</u>
Unclaimed Terminal ticket prizes (excluding Powerball jackpot prizes)	26,608	28,194
Percent transferred	<u>80%</u>	<u>80%</u>
Transfer of unclaimed Terminal ticket prizes	<u>21,286</u>	<u>22,555</u>
Unclaimed Powerball jackpot prizes	<u>4,007</u>	<u>-</u>
Scratch-Off ticket sales	2,566,991	2,225,676
Average percent transferred	<u>21%</u>	<u>20%</u>
Transfer of Scratch-Off ticket sales	<u>541,616</u>	<u>455,503</u>
Unclaimed Scratch-Off ticket prizes	12,888	26,837
Percent transferred	<u>80%</u>	<u>80%</u>
Transfer of unclaimed Scratch-Off ticket prizes	<u>10,310</u>	<u>21,470</u>
Nonoperating revenues (expenses), net	30,682	(16,942)
Add:		
Net (appreciation) depreciation in fair value of investments	(60,221)	(21,662)
Amortization of grand prizes payable	<u>36,446</u>	<u>44,918</u>
Total Nonoperating revenues, net	<u>6,907</u>	<u>6,314</u>
Terminal fees and miscellaneous revenue	<u>7,658</u>	<u>7,436</u>
Due for the year	<u>\$ 1,321,604</u>	<u>\$ 1,191,818</u>
Balance due, beginning of year	81,818	59,308
Paid during the year	<u>(1,351,818)</u>	<u>(1,169,308)</u>
Due to Educational Enhancement Trust Fund, June 30	<u><u>\$ 51,604</u></u>	<u><u>\$ 81,818</u></u>

9. PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

a. Retirement Programs

Florida Retirement System. The Florida Retirement System (FRS) is a State administered cost sharing multiple employer retirement plan that offers members an initial choice between participating in a defined benefit plan (FRS Pension Plan) or a defined contribution plan (FRS Investment Plan) and one additional choice to change plans before retirement. FRS provisions are established by Chapters 121, 122, and 238, Florida Statutes; Chapter 112, Part IV, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, required employer and employee contributions, and benefits are defined and described in detail. Essentially, all employees of participating employers in regularly established positions must be enrolled as members of the FRS or other non-integrated defined contribution plans in lieu of FRS membership.

Benefits in the FRS Pension Plan vest at six years of service for members initially enrolled before July 1, 2011, and at eight years for members initially enrolled on or after July 1, 2011. Special Risk Class members are eligible for normal retirement benefits at age 55 and vested or after 25 years of service at

any age. All other members are eligible for normal retirement benefits at age 62 and vested or at any age after 30 years of service. For members initially enrolled on or after July 1, 2011, Special Risk Class members are eligible for normal retirement benefits at age 60 and vested or after 30 years of service at any age. All other members are eligible for normal retirement benefits at age 60 and vested or at any age after 35 years of service.

Early retirement is available but imposes a penalty for each year a member retires before his or her normal retirement age. Retirement, disability, and death benefits are provided. Retirees with service prior to July 1, 2011, receive annual cost-of-living adjustments. Retirees with service accrued only on or after July 1, 2011, do not receive annual cost-of-living adjustments. Benefits are calculated at retirement based on the age, years of service, accrual value by membership class, and average final compensation (average of highest five fiscal years' salaries if initially enrolled before July 1, 2011, or the average of highest eight fiscal years' salaries if initially enrolled on or after July 1, 2011).

Members of the FRS Pension Plan who reach normal retirement may participate in the Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091(13), Florida Statutes. DROP participants are technically retired, deferring termination and receipt of monthly retirement benefits for up to 60 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

FRS Investment Plan benefits are established in Part II, Chapter 121, Florida Statutes, and participation is available to all FRS members in lieu of the FRS Pension Plan. Members vest after one year of creditable service for Investment Plan contributions. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, six years of service (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds. Benefits under the FRS Investment Plan are based on the account balance at retirement composed of contributions plus investment gains less investment losses and fees. Employer and employee contributions are a percentage of salary based on membership class (Regular class, Special Risk class, etc.). Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices offered under the plan.

The Florida Legislature established uniform contribution rates for participating FRS employees. FRS employers pay the same contribution rate by membership class regardless of whether the members participate in the FRS Pension Plan or FRS Investment Plan. Contribution rates as a percentage of gross salary are as follows:

Class or Plan	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended
	June 30, 2012	June 30, 2012	June 30, 2011	June 30, 2011
Senior Management Service	3.00 percent	6.27 percent	0.00 percent	14.57 percent
Regular	3.00 percent	4.91 percent	0.00 percent	10.77 percent
Special Risk	3.00 percent	14.10 percent	0.00 percent	23.25 percent
DROP - Applicable to members from all of the above classes	0.00 percent	4.42 percent	0.00 percent	12.25 percent

Total employer contribution rates above include 1.11 percent for the postemployment insurance subsidy in addition to the uniform retirement contribution. Also, employer rates, other than for DROP participants, include 0.03 percent for fiscal year ended June 30, 2012 and June 30, 2011, for administrative costs of the financial education program and the Investment Plan. Required employee contributions are deducted on a pre-tax basis.

FRS Contributions. The Lottery's liability for participation in the FRS plans defined above is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the Lottery. The Lottery's employer contributions for the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, totaled \$957,759, \$1,681,368, and \$1,506,859, respectively, which

were equal to 100 percent of the required contributions for each fiscal year. These contributions represented 5.7 percent, 10.4 percent, and 9.2 percent of covered payroll, for the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively.

Senior Management Service Optional Annuity Program. Some Lottery employees also participate in the Senior Management Service Optional Annuity Program (SMSOAP). Offered in lieu of FRS participation, the SMSOAP is a defined contribution plan that provides retirement and death benefits to the participant pursuant to Section 121.055, Florida Statutes. Participants have full and immediate vesting of all contributions paid on their behalf to the participating provider companies to invest as directed by the participants. Employees in eligible State positions may make an irrevocable election to participate in the SMSOAP in lieu of the Senior Management Service Class. Employers contributed 9.49 percent of covered payroll for July 2011 through June 2012, and 12.49 percent of covered payroll for July 2010 through June 2011. This contribution rate includes a contribution that would otherwise be paid to the Retiree Health Insurance Subsidy (HIS) Program described below so the SMSOAP retiree is not eligible to receive monthly HIS benefits. A participant may contribute by salary reduction an amount not to exceed the percentage contributed by the employer. The Lottery's contributions for the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, totaled \$24,509, \$52,329, and \$71,933 respectively.

Retiree Health Insurance Subsidy Program. The Retiree Health Insurance Subsidy Program (HIS) was created by the Florida Legislature in 1987 to assist FRS retirees in paying health insurance costs. HIS is a non-qualified, cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2012, and 2011, eligible retirees or beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments to individual retirees or beneficiaries were at least \$30 but not more than \$150 per month. To be eligible to receive HIS, an FRS retiree must apply for the benefit, provide proof of health insurance coverage, which can include Medicare or TRICARE, and be approved.

HIS is funded by required contributions from FRS participating employers. For the fiscal years ended June 30, 2012, 2011, and 2010, the Lottery contributed 1.11 percent of payroll for all active employees covered by the FRS, pursuant to Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2012, 2011, and 2010, the Lottery contributed \$182,359, \$179,978, and \$181,236, respectively, in employer contributions to HIS. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to legislative appropriation. If these contributions or appropriation fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel the subsidy payments.

Additional Information. Financial statements and other supplementary information for the FRS and additional disclosures for the HIS are included in the State's Comprehensive Annual Financial Report, which may be obtained from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement. Further disclosures and other supplementary information for HIS are included in the Comprehensive Annual Financial Report of the State of Florida, which may be obtained from the Florida Department of Financial Services.

Deferred Compensation Plan. The Lottery, through the State of Florida, offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan (refer to Section 112.215, Florida Statutes), available to all regular payroll State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries as mandated by 26 U.S.C.s.457(g)(1).

The Lottery does not contribute to the plan. Participation under the plan is solely at the discretion of the employee.

The State has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary and prudent investor. Pursuant to Section 112.215, Florida Statutes, the Deferred Compensation Trust Fund is created in the State Treasury.

b. Postemployment Healthcare Benefits

The Lottery participates in the State Employees' Health Insurance Program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State's group health insurance programs and assigns the authority to establish and amend benefit provisions to the Department of Management Services. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination. An actuarial valuation has been performed for the plan and the Lottery's employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State's Comprehensive Annual Financial Report, which is available from the Department of Financial Services.

In accordance with GASB Statement 45, the Lottery is required to record its portion of the implicit postemployment healthcare benefit liability beginning in the fiscal year ended June 30, 2008. Postemployment healthcare benefits payable at June 30, 2012, June 30, 2011, and June 30, 2010, was \$2,196,000, \$1,472,000, and \$990,000, respectively.

10. OPERATING LEASES

The Lottery has entered into operating leases for the rental of office and warehouse space for the headquarters and district offices as well as the rental of computer equipment. Certain leases are renewable at the option of the Lottery.

Future minimum rental payments as of June 30, 2012, are scheduled as follows (in thousands):

Year Ending June 30	Headquarters	Districts	Total
2013	\$ 2,664	\$ 1,031	\$ 3,695
2014	2,690	599	3,289
2015	2,717	552	3,269
2016	2,744	568	3,312
2017	2,772	585	3,357
Total	\$ 13,587	\$ 3,335	\$ 16,922

Rental expense under all operating leases totaled approximately \$3,669,000 and \$3,613,000 for the fiscal years ended June 30, 2012, and 2011, respectively.

11. OTHER COMMITMENTS

The Lottery has contractual agreements under which Terminal and Scratch-Off lottery game vendors provide gaming systems, tickets, and related services. The Lottery's Terminal gaming vendor is compensated at a rate of 1.0699% of net Terminal game ticket sales. The vendor's compensation for

Terminal games for the fiscal years ended June 30, 2012, and 2011, was \$27,622,000, and \$27,740,000, respectively.

The Lottery's Scratch-Off ticket vendor is compensated at rates that range from 0.9985 percent to 2.24 percent based on ticket price points and total annual sales. Compensation under this agreement amounted to \$33,895,000 for the fiscal year ended June 30, 2012, and \$30,900,000 for the fiscal year ended June 30, 2011.

Each of the gaming vendor contracts requires the vendors to provide a fund for marketing support activities as directed by the Lottery. The vendors are required to make deposits into the designated accounts either weekly or monthly and distribute the funds as directed by the Lottery. The funds are used for market research and other expenses directly linked to product sales. Each contract requires that any funds remaining in the accounts at the end of each contract's term will be returned to the Lottery for transfer to the Educational Enhancement Trust Fund. The combined balance in the two funds as of June 30, 2012, and June 30, 2011, was \$3,134,090 and \$3,117,502, respectively.

The Lottery also has contractual agreements for game vending machines. The contracted vendor receives a monthly fee associated with each vending machine. The compensation received by the vendor for the fiscal years ended June 30, 2012, and 2011, was \$5,011,000 and \$4,620,000.

12. LITIGATION

The Lottery is involved in litigation and other claims incidental to the ordinary course of its operations. In the opinion of Lottery management, based on the advice of legal counsel, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position of the Lottery.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Florida Department of the Lottery (the Lottery) as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated January 22, 2013, included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. In our report, we expressed an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

We have examined the effectiveness of the Lottery's internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Lottery's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**. Our responsibility is to express an opinion on the effectiveness of internal control over financial reporting based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of the internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of the internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Lottery maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO. We did note additional matters involving the internal control over financial reporting, which are discussed in the SCHEDULE OF FINDINGS.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain additional matters involving legal compliance, which are discussed in the SCHEDULE OF FINDINGS.

The Lottery's response to the findings described in the SCHEDULE OF FINDINGS section of this report is included as Exhibit – A. We did not audit the Lottery's response and, accordingly, we express no opinion on it.

Auditing standards generally accepted in the United States of America require us to indicate that the provisions of this report relating to compliance and other matters are intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Executive Office of the Governor, and applicable management and are not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
January 22, 2013

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

FLORIDA LOTTERY

Management's Report on Internal Control Over Financial Reporting

The Florida Lottery's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the Florida Lottery's internal control over financial reporting as of June 30, 2012, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Based on that assessment, management concluded that, as of June 30, 2012, the Florida Lottery's internal control over financial reporting is effective based on the criteria established in *Internal Controls – Integrated Framework*.

The Florida Lottery


Cynthia F. O'Connell
Secretary

January 22, 2013



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**STATE OF FLORIDA
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ADDITIONAL MATTERS

Finding No. 1: Information Technology Controls

Information technology (IT) controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. During our audit, we identified the need for enhancements to the Lottery's IT control practices in eight separate areas, seven of which were repeated from the prior audit. To avoid the possibility of compromising Lottery information, specific details of these matters are not disclosed in this report. However, the appropriate Lottery personnel have been notified of these issues.

Recommendation: We recommend that the Lottery make the necessary enhancements to its IT control practices to address the issues identified.

Finding No. 2: Minority Retailer Participation

Section 24.113, Florida Statutes, requires that 15 percent of the Lottery's retailers shall be minority business enterprises, as defined in Section 288.703(3), Florida Statutes; however, no more than 35 percent of such retailers shall be owned by the same type of minority person, as defined by Section 288.703(4), Florida Statutes.

Our audit disclosed that as of July 2, 2012, retailers comprising one minority type totaled approximately 65 percent of the total number of minority retailers. A similar finding has been included in previous Auditor General reports.

The Lottery has developed an outreach program to increase retailer participation in under-represented minority groups; however, despite these efforts, the level of participation from these groups has decreased slightly over the past fiscal year.

Recommendation: We recommend that the Lottery continue its efforts to increase retailer participation in under-represented minority groups.

Finding No. 3: Marketing and Research Support Funds

The Lottery's Terminal ticket and Scratch-Off ticket gaming service vendors are each contractually required to make periodic deposits into marketing and research support funds (funds). The contracts require that the vendors maintain the funds; however, the Lottery is responsible for determining the ultimate distribution of the amounts in the funds. The vendor contracts include provisions stipulating that any remaining moneys in the funds will be returned to the Lottery at each contract's end.

Unobligated cash balances in the funds as of June 30 for the last seven fiscal years are summarized as follows:

Fiscal Year Ended June 30	GTECH Fund	Scientific Games Funds	Total at June 30
2006	\$119,220	\$3,754,813	\$3,874,033
2007	\$9,703	\$2,893,864	\$2,903,567
2008	\$18,602	\$1,272,298	\$1,290,900
2009	\$55,921	\$542,891	\$598,812
2010	\$72,970	\$2,047,794	\$2,120,764
2011	\$146,444	\$2,327,932	\$2,474,376
2012	\$278,971	\$2,005,970	\$2,284,941

Source: Lottery Marketing Support Fund Reports

According to fund transaction documentation provided by the Lottery, moneys were contributed to these funds as stipulated in the vendor contracts and the funds were to be used to pay for market research, promotional materials, advertising, and ticket dispensers.

In Auditor General report No. 2007-093, we recommended that the Lottery amend the applicable provisions of each contract to include language that specifically addressed the ownership of each fund; that based on these clarifications, the Lottery consider the appropriateness of the budgetary and financial reporting treatments utilized for the funds; and that the Lottery more closely monitor compliance with its established purchase authorization and payment procedures.

The Lottery executed new contracts with Scientific Games, effective October 1, 2008, and GTECH, effective March 28, 2011, with the provisions stipulating that any remaining moneys in the funds will be returned to the Lottery at each contract's end. In addition, the Lottery has increased its monitoring of compliance with the Lottery's established procedures. However, the Lottery had not included information relating to these funds in Lottery budgetary and financial reports.

In response to audit inquiry, the Lottery has added a disclosure to Note 11 of the financial statements describing the funds and their balances at June 30, 2012, and June 30, 2011.

Absent the inclusion of the transactions and balances for those funds, the Lottery's budgetary and financial reports do not provide an accounting for all financial resources available to the Lottery.

Recommendation: We recommend that the Lottery incorporate in its financial accounts and reports the transactions and balances associated with these Lottery resources.

In response to this finding, the Lottery indicated that although the Lottery can direct the vendors on how to make payments, the Lottery does not actually have access to the funds. While we agree that under the vendor contracts, the Lottery was not granted physical access to the funds, the Lottery did control the funds, as evidenced by its ability to direct disbursements of the moneys therein. The recording of the transactions and balances of these funds would enhance the accuracy and completeness of the Lottery's financial accounts and reports.

EXHIBIT A
MANAGEMENT'S RESPONSE

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

FLORIDA LOTTERY

January 22, 2013

David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

The Lottery has received your December 21, 2012 report of preliminary and tentative findings and recommendations resulting from your audit of the Lottery's financial activities for the fiscal year ended June 30, 2012. The staff has discussed your recommendations and responds as follows:

1. Recommendation: The Lottery make the necessary enhancements to its IT control practices to address the issues identified.

Response: The Lottery has made the necessary enhancements presented by this audit or is in the process of implementing the enhancements. The Lottery has an ongoing process to improve IT controls and will continue to reengineer where necessary to tighten controls.

2. Recommendation: The Lottery continue in its efforts to increase retailer participation in under-represented minority groups.

Response: As noted in the initial response, the Lottery continues its efforts to increase retailer participation in under-represented minority groups with strategic initiatives including attending minority trade shows to recruit retailers, working with Florida's Petroleum Marketers Association to identify and recruit new retailers including minority operators, advertising in minority business journals by featuring minority retailers currently selling Lottery products, exploring non-traditional trade style retailer prospects, and providing access to inquire how to become a retailer through the Lottery's website.



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EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

David W. Martin, CPA
Auditor General
Response to Preliminary and Tentative Findings
January 22, 2013

Despite these efforts, the level of participation from these groups has decreased slightly over the past fiscal year. A number of factors could contribute to this decline including the challenges presented by current economic conditions as well as the aggressive corporate convenience store expansion taking place in Florida, often purchasing units from struggling independent operators including minority retailers.

However, we agree with the recommendation and will continue to aggressively pursue retailer participation in under-represented minority groups.

3. Recommendation: The Lottery incorporate in its financial accounts and reports the transactions and balances associated with these (Marketing and Research Support Funds) Lottery resources.

Response: As the recommendation narrative indicates, each of the primary gaming vendors is required by contract to set aside funds to be spent, at the Lottery's direction, for the purposes of market research and product sales and promotion activities. Each vendor has incorporated this requirement into the percentage of sales payment for providing the scope of services required in the contract. While it is true that the Lottery can direct the vendors on how to make the expenditures, the Lottery does not actually have access to the funds. The percentage of sales payments are reflected in the Lottery's financial statements. The marketing fund contract requirement was carried over from prior contracts and has allowed the Lottery to reduce its appropriation requests over the years, as critical items now covered by the vendor funds are no longer included in the department's annual appropriation. It is worth noting that, without the vendor-provided marketing and research funding, the Lottery would need to seek additional appropriations of approximately \$3.7 million per year to cover the mission-critical elements. In addition, as is recognized in your narrative, any funds left unspent in the vendor's accounts will be returned to the Lottery at the end of each contract and thus transferred to the Educational Enhancement Trust Fund.

As suggested in previous audits, the Lottery has strengthened the internal controls and internal reporting around the direction and monitoring of the vendor funds, to ensure that no inappropriate procurements are being executed and that all the resources are accountable. The Lottery does keep detailed accounting records of the market research, point of sale materials, ticket display equipment and other items covered by the funds and routinely reviews the information internally.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

David W. Martin, CPA
Auditor General
Response to Preliminary and Tentative Findings
January 22, 2013

As noted in your narrative, the marketing fund balances currently are disclosed in the financial statement note 11. With regard to budget reports, the required budget reports routinely provided by the Lottery cover appropriated expenditures. These funds are clearly not appropriated. The data is available for any interested party upon request. When ownership issues raised implicitly in audit reports in 2007, 2008 and 2009 were not included in subsequent years, the Lottery believed that those issues had been addressed to the satisfaction of the Auditor General's Office. The Lottery will seek independent guidance regarding other disclosure options within existing reports to ensure adequate information is being provided to interested parties.

I would like to thank your staff for their efforts on behalf of the Lottery and look forward to receiving your final report.

Sincerely,



Cynthia F. O'Connell
Secretary

cc: J. Bruce Hoffmann, Chief of Staff
Glenda Thornton, General Counsel
Cynthia B. Jackson, Chief Financial Officer
Dennis Harmon, Deputy Secretary
Andy Mompeller, Inspector General



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Lottery Revenue Has Increased Over the Past Year; Options Remain to Enhance Transfers

Joint Legislative Auditing Committee

Becky Vickers, Chief Legislative Analyst

February 4, 2013

Research Questions

- Scope determined by s. 24.123, *Florida Statutes*
- OPPAGA charged with identifying options to
 - enhance Lottery's earning capability
 - improve Lottery's operational efficiency

Lottery Revenues Increased Over the Past Year

- In FY 2011-12, Lottery transferred \$1.322 billion to the Educational Enhancement Trust Fund
 - an increase of \$130 million over the prior year
- Transfers exceeded the Legislative standard, Lottery's internal objective, and revenue forecasts

Lottery Revenues Could Be Further Increased in Several Ways

- Add new games
- Adopt new ways of selling tickets
- Expand the retailer network

New Game Options Could Enhance Revenues

- Mega Millions – multi-state game similar to Powerball
 - All U.S. lotteries except California and Florida sell both Powerball and Mega Millions
 - Could avoid losing sales to bordering states
 - Revenues indeterminate; may be positive
 - Already authorized in statute

New Game Options Could Enhance Revenues

- Fast Keno – draw game with frequent drawings
 - Could generate between \$58 million and \$269 million annually in additional transfers
 - Lottery would need budget authority
 - Reportedly more addictive than traditional lottery games

New Ticket Selling Options Could Enhance Revenues

- Sell lottery tickets over the Internet
 - Recent federal opinion found that it does not violate federal law
 - Two states have begun online sales of lottery tickets – Illinois and Georgia
 - Would require statutory revisions
 - Has the potential to affect revenues from the gaming compact

New Ticket Selling Options Could Enhance Revenues

- Offer subscriptions to lottery drawings
 - Other states offer subscriptions through the mail or via the Internet
 - Could generate \$10 million annually in additional transfers
 - Would require statutory revisions

Expanding the Retailer Network Could Enhance Revenues

- Lottery's Sales Division recruits retailers to sell lottery products
- Increasing the retailer network to the level achieved by top-selling lotteries could generate about \$88.5 million annually in additional transfers

A Retailer Recruitment Cost-Benefit Analysis Would Show the Return on Investment of Recruitment Activities

- Our 2011 report recommended that the department annually complete a retailer recruitment cost-benefit analysis to evaluate cost-efficiency, adjust as needed, and plan future recruitment
- Lottery delayed implementation due to reorganizing this function and shifting its recruitment focus

Recommendations

- We recommend that the Lottery
 - continue to expand the retailer network
 - conduct an annual retailer recruitment cost-benefit analysis
- If the Legislature is interested in a particular option to expand current games or product distribution methods, we recommend that it direct the department to provide a more detailed analysis
 - include advantages, disadvantages, potential revenues and costs, timeframes, needed statutory changes, and any impact on the gaming compact

Questions?



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OPPAGA supports the Florida Legislature by providing data, evaluative research, and objective analyses that assist legislative budget and policy deliberations.



January 2013

Report No. 13-02

Lottery Revenue Has Increased Over the Past Year; Options Remain to Enhance Transfers

at a glance

Lottery transfers to the Educational Enhancement Trust Fund increased by \$130 million in Fiscal Year 2011-12. To maintain and stimulate sales during 2012, the Lottery continued to launch new products and enhance product distribution.

Several additional game and product distribution options are available to increase transfers to education. However, some of these options could represent expanded gambling and some could affect revenues from the gaming compact between the State of Florida and the Seminole Tribe of Florida.

The Lottery's operating expense rate continues to meet legislative performance standards. To gain an overall perspective on the effectiveness and return on investment of its retailer recruitment methods, the Lottery should annually conduct a recruitment cost-benefit analysis.

Scope

As directed by the Legislature, OPPAGA examined the Department of the Lottery and assessed options to enhance its earning capability and improve its efficiency.¹

Background

The Department of the Lottery generates funds for education and enables the state's citizens to play state-operated lottery games. The Lottery sells both draw and scratch-off games. Draw games allow players to select from a range of numbers on a play slip. Draw game tickets are printed by terminals that are connected to the Lottery's central computer system for a drawing at a later time. Scratch-off games are tickets with latex covering that players scratch off to determine instantly whether they have won.

The Lottery is self-supporting and receives no general revenue. For Fiscal Year 2012-13, the Legislature appropriated \$149 million from Lottery sales revenue and authorized 423 positions for Lottery operations. Prizes and retailer commissions are paid directly from sales revenues and do not appear in the department's appropriation. In Fiscal Year 2011-12, prizes were \$2.77 billion and retailer commissions were \$247.7 million.²

Since its inception, the Lottery has outsourced its core functions to produce, advertise, and sell tickets. In Fiscal Year 2012-13, the Lottery allocated approximately 75%, or \$111.7 million, of its \$149 million appropriation to produce

¹ Section 24.123, F.S., requires an annual financial audit of the Lottery, which is to include recommendations to enhance the Lottery's earning capability and efficiency. The Joint Legislative Auditing Committee directed OPPAGA to assess efficiency and the Auditor General to conduct the financial audit.

² To sell its products, the Lottery contracts with a wide range of retailers across the state, such as supermarkets, convenience stores, gas stations, and newsstands. Retailers receive commissions for selling Lottery products at a rate of 5% of the ticket price in addition to 1% of the prize value for redeeming winning tickets. Retailers can also receive bonuses for selling select winning tickets and performance incentive payments.

and advertise draw and scratch-off games. Vendor contracts include those listed below.

- In October 2010, the Lottery entered a four-year renewal contract by executing two, two-year renewal options with GTECH, its draw gaming system vendor, to provide computer systems, instant ticket and full service vending machines, retailer terminals, software, telecommunications, and technical support services.
- In September 2010, the Lottery entered a two-year renewal contract with Machado Garcia-Serra Advertising, Inc., for Hispanic market advertising. The department and Machado Garcia-Serra entered into a final one year renewal contract in November 2012.
- In August 2009, the Lottery entered a three-year contract with St. John & Partners Advertising and Public Relations, Inc., for general market advertising. In October 2010, the Lottery exercised its first one-year renewal option to take effect August 2012.
- In September 2008, the Lottery entered a six-year contract with Scientific Games to print, market, and distribute scratch-off game tickets.

Revenue Performance

In Fiscal Year 2011-12, the Lottery transferred \$1.322 billion to the Educational Enhancement Trust Fund, \$130 million more than the prior year. Transfers exceeded the legislative standard of \$1.206 billion, the Lottery’s internal objective of transferring at least \$1 billion annually to the Educational Enhancement Trust Fund, and the Revenue Estimating Conference forecast.³ Revenues are projected to continue to increase during the current fiscal year. The November 2012 Revenue Estimating Conference projected that the Lottery’s transfers to education will increase by \$48 million in Fiscal Year 2012-13.

³ The Lottery’s legislatively-approved performance standards are reported in its long-range program plan: *Long Range Program Plan Fiscal Years 2013-14 through 2017-18*, Florida Lottery, September 30, 2012.

Revenue Enhancement Options

The Lottery has taken steps in the past year to maintain and increase its sales and transfers to the Educational Enhancement Trust Fund, such as enhancing its product mix by adding a higher priced (\$25) scratch-off game, and continuing to increase its product distribution outlets through instant ticket vending machines. The Lottery has also deployed 500 full service vending machines as of November 2012, which dispense both scratch off and draw game tickets, as authorized by the 2012 Legislature.

To further increase sales and transfers, the Lottery could implement additional games or expand product distribution by adopting new ways of selling lottery tickets. While some of these options are discussed below, Appendix A provides a more detailed list of new game options and Appendix B lists additional product distribution options, along with the advantages and disadvantages of each option. The estimated values of the revenue enhancements presented in Appendices A and B are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one game to another. In addition, adding new lottery games or expanding distribution options could represent an expansion of legalized gambling and could produce negative social costs.⁴

New lottery games could generate substantial revenues, but could represent expanded gambling

Florida could consider adding several lottery games that might attract new players and substantially increase state revenues, such as joining another multi-state game or implementing fast keno. Joining Mega Millions, which is another multi-state game that operates similar to Powerball, is authorized

⁴ For more information on the negative social costs, see our 2010 report, *Lottery Profits Flat; Increasing Retailer Outlets is Critical to Increasing Sales*, OPPAGA [Report No. 10-16](#), January 2010.

by s. 24.105(18), *Florida Statutes*. Multi-state lottery associations permitted states to cross-sell Powerball and Mega Millions starting in January 2010. All U.S. lotteries except Florida and California sell both multi-state games, and California recently announced plans to start offering both. Thus, the Florida Lottery would be the only U.S. lottery that does not sell both multi-state games.

Implementing Mega Millions has several advantages. For example, it could help avoid losing sales to bordering states. Georgia participates in both Mega Millions and Powerball, while Florida only participates in Powerball. Rather than potentially lose sales to Georgia, particularly when Mega Millions offers large jackpots, Florida could keep sales in-state by selling both games. Also, since Powerball drawings are held Wednesday and Saturday, and Mega Millions drawings are held Tuesday and Friday, cross-selling would provide players more choice of games offering large jackpots. In addition, while Powerball increased to a \$2 price per ticket, Mega Millions continues to provide players a \$1 per ticket option for a multi-state game. Moreover, in a recent Florida player/retailer research survey, nearly two-thirds of respondents indicated they would purchase Mega Millions.

However, although potential recurring transfers to education may be positive, potential revenue amounts are indeterminate. Consultant analyses have shown mixed results on the sales impact in Florida, as implementing Mega Millions is projected to partially offset sales from Florida Lotto and Powerball.

Another game option would be to introduce fast keno, which could generate between \$58 million and \$269 million in additional transfers.^{5,6} Fourteen U.S. lotteries offer fast

keno.⁷ To implement fast keno in Florida, the Legislature would need to grant budget authority for the Lottery to spend sales revenue to acquire a fast keno gaming system.⁸ Fast keno is reportedly more addictive than traditional lottery games, though not as addictive as video lotteries. If it were offered on video lottery terminals, fast keno could impact revenues from the gaming compact between the State of Florida and the Seminole Tribe of Florida.^{9,10}

New ticket-selling methods could also generate additional revenues

The Legislature and the Lottery could consider expanding product distribution, as shown in Appendix B. For example, selling lottery products over the Internet could increase sales and provide more convenience to players. The U.S. Department of Justice released a legal opinion in December 2011 that found state lotteries' use of the Internet and out-of-state transaction processors to sell lottery tickets to adults within their states' borders does not violate federal law.

⁶ We estimated a range of potential fast keno revenue based on the highest and lowest per capita sales in states that offer fast keno, which we applied to Florida's estimated population for 2014 after excluding outlier states from the upper and lower quartiles. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 30.38%, based the average fast keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

⁷ Lotteries in California, the District of Columbia, Georgia, Kansas, Maryland, Massachusetts, Michigan, Missouri, New York, Ohio, Oregon, Rhode Island, the U.S. Virgin Islands, and West Virginia offer fast keno.

⁸ Implementing fast keno also may require legislative action to modify the requirement for a drawing to be witnessed by an accountant, given that electronic drawings could occur every five minutes (s. 24.105(9)(d), *F.S.*).

⁹ A gaming compact between the State of Florida and the Seminole Tribe of Florida was approved by the Governor April 7, 2010, ratified by Ch. [2010-29](#), *Laws of Florida*, and approved by the U.S. Department of the Interior on July 6, 2010. The gaming compact provides the Tribe with partial but substantial exclusivity with respect to the play of covered games in exchange for payments to the state derived from gaming proceeds.

¹⁰ Video lottery terminals are player activated and can be programmed to play casino-style games such as poker, blackjack, fast keno, and bingo; or simulate mechanical slot machines or roulette wheels.

⁵ Fast keno is a draw lottery game in which players choose from 10 to 12 numbers from a panel of 80 numbers in the hope of matching their choices to 20 numbers drawn by a central computer. Fast keno is similar in principle to other draw games, but occurs more frequently (typically every five minutes) and is often played in a social setting such as a bar or restaurant.

Subsequent to this decision, two states have begun online sales of lottery tickets. In March 2012, Illinois became the first state to sell individual draw game tickets over the Internet. The Illinois Lottery website allows players who are over the age of 18 and are residents of Illinois to purchase tickets for Lotto, Mega Millions, and Powerball. In addition, as of November 2012, individuals who register on the Georgia Lottery website are able to purchase Mega Millions, Powerball, and Fantasy 5 tickets online while located within the state of Georgia.

Offering lottery products over the Internet would require statutory revisions. Florida law currently restricts the use of player-activated terminals and does not authorize the use of credit cards or other instruments issued by a bank for lottery purchases without a purchase of \$20 in other goods.¹¹

In addition, authorizing the sale of lottery products over the Internet has the potential to affect revenues from the gaming compact, depending on whether the Seminole Tribe of Florida chooses to also offer Internet gaming. If only the state offers this option and the tribe's net win of covered games drops more than 5% below its net win from the previous 12-month period, the tribe may no longer be required to make guaranteed minimum payments to the state.¹² Instead, the tribe may continue to make payments based on the percentage revenue sharing amount, which may be lower than the guaranteed minimum.¹³

¹¹ Section 24.105(9)(a), *F.S.*, restricts the use of player-activated machines and s. 24.118(1), *F.S.*, requires the purchase of no less than \$20 of other goods and services in order to use a credit card or other instrument issued by a bank to purchase lottery products.

¹² "Guaranteed minimum payments" are defined by the compact as totaling \$700 million during years three through five of the compact (Fiscal Years 2012-13 through 2014-15).

¹³ The "percentage revenue sharing amount" is a payment owed to the state during years three through five of the compact that is based on varying percentages of net win received by the tribe that year. The gaming compact between the State of Florida and the Seminole Tribe of Florida provides that the tribe will pay the greater of the percentage revenue share amount or the guaranteed minimum revenue sharing payment per cycle.

However, the compact provides that if the tribe also offers Internet gaming, as authorized by law, state revenue from the compact may not be affected.

Subscription sales is another product distribution method that could increase sales. Other states permit subscription sales for certain draw games through the mail or via the Internet.¹⁴ Typically, players purchase subscriptions for three months to a year's worth of drawings for numbers they select or request as quick picks. Players make purchases by filling in forms and submitting them on the lottery's website or downloading forms and mailing them in with a payment. For instance, New Hampshire sells Hot Lotto, Mega Millions, Powerball, and Tri-State Megabucks subscriptions over the Internet. Players must be 18 years of age or older and have a New Hampshire mailing address, as federal law requires state regulations to include age and location verification to reasonably block access to minors and persons located outside the state. According to Lottery estimates, if Florida performed at average levels, annual sales through subscriptions could generate an additional \$10 million in transfers to education.

Operational Efficiency Options—

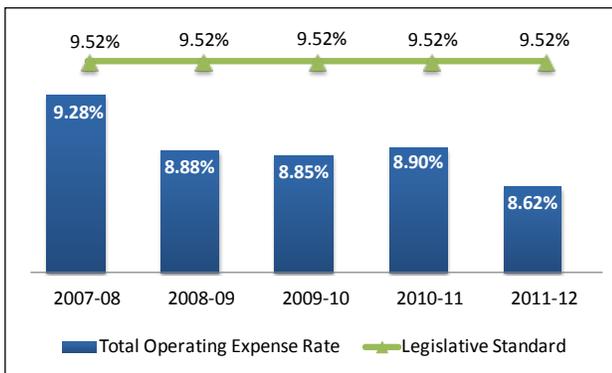
The Lottery continues to keep its expenses as a percentage of sales low. For additional efficiencies, it should complete annual retailer recruitment cost-benefit analyses as an ongoing feedback loop to plan recruitment activity and give the department an overall perspective on the effectiveness and return on investment of its recruitment efforts.

¹⁴ Ten U.S. lotteries offer subscription sales for draw games: Illinois, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, New York, North Dakota, Vermont, and Virginia. Six lotteries accept credit cards, two require players to mail in a check or money order, and two require a valid bank account for electronic fund transfers.

The Lottery’s operating expense rate is lower than the legislative standard

The Lottery’s operating expenses in relation to its ticket sales continue to be lower than the legislative standard, as shown in Exhibit 1. Compared to other U.S. lotteries, the Lottery had the 3rd lowest expense rate (8.93%) in Fiscal Year 2010-11, behind New Jersey (7.70%) and Massachusetts (7.71%).¹⁵

**Exhibit 1
The Lottery’s Operating Expense Rate Continues to Be Below the Legislative Standard**



Source: Department of the Lottery Long Range Program Plans.

Retailer recruitment cost-benefit analyses should help Lottery evaluate the return on investment of recruitment activities

The department’s Sales Division is responsible for recruiting independent and corporate retailers to sell lottery products, thus enhancing Lottery revenues by working to maintain and expand the retailer network. In Fiscal Year 2010-11, the top 10 U.S. lotteries ranked by per capita sales had an average of 1,200 residents per retailer. During that period, Florida Lottery averaged 1,450 residents per retailer. Adding 2,800 new retailers to Florida’s retailer network would meet the top-performing lotteries’ market penetration and has the potential to generate about \$88.5 million annually in additional transfers to the

Educational Enhancement Trust Fund.¹⁶ Expanding the retailer network has been shown to increase lottery sales more than advertising.¹⁷

In our 2011 report, we recommended that the department annually complete a retailer recruitment cost-benefit analysis and use the resulting data to evaluate the cost efficiency of recruitment activities, adjust these efforts as needed, and plan future activities.¹⁸ Retailer recruitment cost-benefit analyses provide ongoing feedback to plan recruitment efforts and give the department an overall perspective on the effectiveness and return on investment of its recruitment methods. At the time of our 2011 report, the department had just completed a cost-benefit analysis of its retailer recruitment efforts from July 2006 through December 2010.

The department has not implemented our recommendation to annually complete a retailer recruitment cost-benefit analysis due to reorganizing this function and shifting its recruitment focus, but plans to conduct a cost-benefit analysis in the future. According to department administrators, a primary reason they did not conduct a cost-benefit analysis of 2011 retailer recruitment efforts was that they merged the former Business Development unit into the Sales Division; the reorganization was completed in December 2011. Formerly, the two units both had responsibilities for corporate retailer recruitment.

Another reason department administrators cited for waiting to conduct a cost-benefit analysis was that the department shifted its recruitment efforts to place a stronger

¹⁶ We estimated potential revenues from expanding the retailer network by assuming that the 2,800 retailers would achieve at least the average weekly gross sales new retailers achieved in 2012. The estimate assumes all 2,800 terminals being active for a full year and that 20% of their sales would be shifted from existing retailers.

¹⁷ For more information on adding retailers to increase education transfers, see our 2010 report, *Lottery Jackpots, Retailer Density, and Advertising Drive Transfers to Education*, OPPAGA [Report No. 10-17](#), January 2010.

¹⁸ *Lottery Profits Decline; Options Available to Enhance Transfers to Education*, OPPAGA [Report No. 11-12](#), March 2011.

¹⁵ Florida Lottery’s ranking is based on the latest fiscal year data available from La Fleur’s *2012 World Lottery Almanac*.

emphasis on increasing sales at its existing corporate retailers and recruiting additional corporate chain stores, while reducing the effort spent on recruiting independent retailers. To improve sales at existing corporate retailers, Lottery is working with the retailers to gain approval to use methods such as plan-o-grams and menu boards to boost sales, as well as to increase the number of displays (product facings) and secondary sales locations through the use of lottery vending machines.¹⁹ Lottery is also working with these retailers to offer Lottery products when they open new stores, such as adjacent liquor stores. For corporate chain recruitment, Lottery has developed a list of chains that do not sell Lottery products, such as Target and Walgreens, and maintains contact with corporate headquarters to try to gain approval to offer Lottery products, even if only on a pilot basis.²⁰

For independent retailers, Lottery is primarily depending on referrals from its website. Administrators said that they eliminated staff positions at the central office that used to take calls from interested retailers and route the referrals to district offices. Instead, Lottery’s website directs potential retailers to the district offices, which are responsible for following up on these leads. Sales representatives are also responsible for contacting new retailers they see opening up for business in their regions.

Due to the reorganization and shift in focus, Lottery administrators are waiting until the end of Fiscal Year 2012-13 to conduct a retailer recruitment cost-benefit analysis, as this will allow for an analysis of a full year’s operation under its new direction. Given the magnitude

of the changes it has made, this would be an appropriate time to evaluate the costs and sales return of the recruitment methods it is using with various types of retailers.

Recommendations

While the department and the Legislature have increased transfers to education, there are additional actions that could increase sales and efficiency, and ultimately increase transfers to education.

Department Options

We recommend that the Department of the Lottery continue efforts to expand the retailer network and conduct a cost-benefit analysis of retailer recruitment efforts, as currently planned, at the end of Fiscal Year 2012-13. The department should also annually update the analysis and use the resulting data to evaluate the cost efficiency of recruitment activities, adjust these efforts as needed, and plan future activities.

Legislative Options

The Legislature could consider authorizing the Lottery to expand its current games and product distribution methods to enhance revenues, as described in Appendices A and B. If the Legislature is interested in a particular option, it could direct the Department of the Lottery to provide a more detailed analysis that includes advantages and disadvantages, potential revenues and costs, timeframes for implementation, needed statutory changes, and any impacts on the gaming compact with the Seminole Tribe of Florida.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of the Lottery for review and response. The Secretary’s written response to this report is in Appendix D.

¹⁹ Plan-o-grams are monthly notifications from the Department of the Lottery that inform retailers of the top selling scratch-off games so that they can stock and prominently display the top sellers. Menu boards display the scratch-off games being sold at a specific store.

²⁰ The Department of the Lottery has embarked on a pilot project with Walmart in which the retailer’s Neighborhood Market stores are selling lottery products in 37 of its main stores and 15 of its liquor stores. Currently, Florida is the only U.S. lottery for which Walmart sells lottery products.

Appendix A

New Lottery Game Options

New games that attract new players have the potential to substantially increase revenues to education. Table A-1 lists these options, their advantages and disadvantages, and estimated revenues where we were able to develop reasonable estimates. The estimated revenues are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one game to another. Some new games that could generate significant revenue, such as fast keno and video lottery terminals, could increase the negative social costs of gambling and, in some cases, could impact revenue from the gaming compact between the State of Florida and the Seminole Tribe of Florida. Estimates of annual revenue assume full implementation by July 1, 2013. However, some options would require additional time to implement, such as launching a keno game.

Table A-1
New Games Have the Potential to Increase Revenues to Education

Option	Advantages	Disadvantages
<p>Mega Millions Multi-state games, such as Mega Millions, often reach very large jackpot sizes because they cover most states</p>	<ul style="list-style-type: none"> ▪ Offers players greater opportunities for very large jackpots ▪ Since Powerball drawings are held Wednesday and Saturday, and Mega Millions drawings are held Tuesday and Friday, cross-selling would provide players more choice of games offering large jackpots. ▪ While Powerball increased to \$2 per ticket, Mega Millions continues to provide players a \$1 per ticket option for a multi-state game. ▪ In a June 2012 Florida player/retailer research survey, nearly two-thirds of respondents said they would purchase Mega Millions. ▪ Potential recurring transfers to education may be positive but are indeterminate at this time; consultant analyses have shown mixed results on the sales impact in Florida due to an offsetting sales shift from Florida Lotto and Powerball. ▪ Authorized by s. 24.105(18), <i>F.S.</i>, and thus would not require statutory changes 	<ul style="list-style-type: none"> ▪ More frequent mega jackpots could reduce incentive for occasional players to respond to large jackpots ▪ Probable sales shift from Powerball and Florida Lotto ▪ Threat to Florida Lotto as a brand; player/retailer research survey indicated Lotto is the game on which players would most likely spend less ▪ Could be considered an expansion of gambling ▪ Might require a change in the name of Florida's current Mega Money game to minimize player confusion with Mega Millions

Option	Advantages	Disadvantages
<p>Fast Keno Draw lottery game in which players choose from 10 to 12 numbers from a panel of 80 numbers in the hope of matching their choices to 20 numbers drawn by the central computer at Lottery headquarters; may be played frequently (e.g., every five minutes)</p>	<ul style="list-style-type: none"> ▪ Potential recurring transfers to education range from \$58 million to \$269 million per year.¹ ▪ Can be limited to pari-mutuel facilities or social settings such as bars and restaurants ▪ Would help the Lottery to recruit new retailers in social venues 	<ul style="list-style-type: none"> ▪ Fast keno is reportedly more addictive than traditional lottery games, though not as addictive as video lotteries. ▪ Could be considered an expansion of gambling ▪ May require legislative action to modify the requirement for a drawing to be witnessed by an accountant, given that electronic drawings could occur every five minutes (s. 24.105(9)(d), <i>F.S.</i>) ▪ Requires legislative budget approval for a fast keno gaming system ▪ If it were offered on video lottery terminals, fast keno could impact revenue from the gaming compact between the State of Florida and the Seminole Tribe of Florida.² ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor³
<p>Daily Keno Draw lottery game in which players choose as many as 10 numbers from a panel of 80 numbers in the hope of matching their choices to 20-22 numbers drawn by the central computer at Lottery headquarters</p>	<ul style="list-style-type: none"> ▪ Potential recurring transfers to education range from \$6 million to \$11 million per year.⁴ 	<ul style="list-style-type: none"> ▪ Could be considered an expansion of gambling
<p>Video Lottery Terminals Players use video terminals that can be programmed to play casino-style games such as poker, blackjack, fast keno, and bingo, or simulate mechanical slot machines or roulette wheels</p>	<ul style="list-style-type: none"> ▪ Potential recurring transfers to education range up to a gain of \$306.8 million per year depending on how it is implemented and after accounting for potential lost Seminole Tribe of Florida gaming revenue if determined to impact the revenue sharing agreement; see Appendix C for additional information on the impact of different implementation methods on the amount of revenue that may be gained from implementing video lottery terminals.⁵ ▪ To reduce issues/concerns about underage players, play could be limited to pari-mutuel facilities. 	<ul style="list-style-type: none"> ▪ Could result in a loss of \$34.5 million per year in recurring transfers to education depending on how it is implemented and after accounting for potential lost Seminole Tribe of Florida gaming revenue if determined to impact the revenue sharing agreement (see Appendix C) ▪ Because of its rapid play style, it may be more addictive than other lottery games, and thus increase social costs associated with problem and pathological gambling. ▪ Represents a substantial change for gambling in Florida by permitting casino-style lottery games statewide, which could be criticized by anti-gambling groups ▪ Would require legislative action to authorize player-activated video lottery terminals in Florida (s. 24.105, <i>F.S.</i>) ▪ Requires legislative budget approval for a video lottery gaming system ▪ Could erode sales of traditional Florida Lottery games within certain market segments

Option	Advantages	Disadvantages
<p>Higher Priced Scratch-off Games Standard scratch-off games offered at prices of \$25 or more, with higher prizes and prize payout percentages</p>	<ul style="list-style-type: none"> ▪ The Lottery’s October 2012 introduction of a \$25 scratch-off game linked to its 25th anniversary achieved weekly sales of over \$10 million, exceeding the sales performance of its top \$20 game. 	<ul style="list-style-type: none"> ▪ Florida’s previous introduction of \$30 tickets generated lower than expected sales, but this may have been due to the play style of the ticket and the state of the economy at the time. ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor³
<p>Monitor Games Computer animated games simulating horse racing, golf, etc., that are played on in-store monitors similar to the way fast keno is played</p>	<ul style="list-style-type: none"> ▪ May have less association to casino gambling than fast keno ▪ Could appeal to emerging markets of Lottery players that have grown up playing computer games ▪ Allows the Lottery to recruit new retailers in social venues such as bars and restaurants ▪ Can be limited to pari-mutuel facilities or social settings such as bars and restaurants 	<ul style="list-style-type: none"> ▪ Because of its rapid play style, it could be more addictive than traditional lottery games. ▪ Could be considered an expansion of gambling ▪ Requires legislative budget approval for a new gaming system ▪ May require legislative action to modify the requirement for a drawing to be witnessed by an accountant, given that electronic drawings could occur frequently (s. 24.105(9)(d), <i>F.S.</i>) ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor³

¹ We estimated a range of potential fast keno revenue based on the highest and lowest per capita sales in states that offer fast keno, which we applied to Florida’s estimated population for 2014 after excluding outlier states from the upper and lower quartiles. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 30.38%, based the average fast keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

² A gaming compact between the State of Florida and the Seminole Tribe of Florida was approved by the Governor April 7, 2010, ratified by Ch. [2010-29](#), *Laws of Florida*, and approved by the U.S. Department of the Interior on July 6, 2010. The compact provides the tribe with partial but substantial exclusivity with respect to the play of covered games in exchange for payments to the state derived from gaming proceeds.

³ Proceeds from Lottery Revenue Bonds have been used to finance the cost of constructing, acquiring, reconstructing or renovating educational facilities at various locations throughout the state. The term bond rate floor is one the Lottery uses to describe and monitor the lowest Educational Enhancement Trust Fund transfer rate allowed in order to ensure the Lottery remains in compliance with the covenants established with each bond issuance.

⁴ We estimated a range of daily keno revenue based on the highest and lowest per capita sales in states that offer daily keno, which we applied to Florida’s estimated population for 2014. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 40.67%, based on the November 2011 Revenue Estimating Conference projected transfers for Fiscal Year 2014-15, and that 10% of the sales would be shifted from existing game sales.

⁵ We estimated video lottery terminal revenue by assuming that 1,000 video lottery terminals would be active a full year in 20 pari-mutuel facilities operating outside Broward and Miami-Dade counties. The estimates are based on Florida’s lowest pari-mutuel net income per slot machine to the highest net income per slot machine. We then adjusted these figures to a 35% tax rate and compensated for shifts from other state revenue sources, including the Lottery, sales tax, and slot machine tax.

Source: OPPAGA analysis of industry and Department of the Lottery information.

Appendix B

Product Distribution Options

Making lottery products more accessible and convenient for players by expanding product distribution has the potential to substantially increase revenues to education. Authorizing product distribution through the Internet, increasing the number of retailers, and expanding the use of full service vending machines have the potential to increase revenues by making lottery products more readily available to residents and tourists. Table B-1 lists these and other product distribution options that could increase Lottery sales and education transfers, their advantages and disadvantages, and estimated revenues where we were able to develop reasonable estimates. The estimated revenues are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one point of sale to another. Estimates of annual revenue assume full implementation by July 1, 2013. However, some options would likely require additional time to implement.

Table B-1
Expanding Product Distribution Has the Potential to Increase Revenues to Education

Option	Advantages	Disadvantages
<p>Authorize Internet Sales The Legislature would enact laws to authorize intrastate Internet sales of lottery products</p>	<ul style="list-style-type: none"> ▪ Provides more convenience to players who prefer to purchase their lottery products from their personal computer or cellular device ▪ The U.S. Department of Justice released a legal opinion in December 2011 that found state lotteries' use of the Internet and out-of-state transaction processors to sell lottery tickets to adults within their states' borders does not violate federal law. ▪ Two states have begun online sales of lottery tickets. In March 2012, Illinois became the first state to sell individual draw game tickets over the Internet. The Illinois Lottery website allows players to purchase tickets for Lotto, Mega Millions, and Powerball, as long as they are over the age of 18 and residents of Illinois. In addition, as of November 2012, individuals who have registered on the Georgia Lottery website are able to purchase Mega Millions, Powerball, and Fantasy 5 tickets online while located within the state of Georgia. ▪ Canadian lotteries are selling individual games over the Internet using technology that detects the player's location (e.g., British Columbia Lottery Corporation at www.bclc.com). 	<ul style="list-style-type: none"> ▪ Must comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state ▪ Requires a statutory change to allow player-activated terminals (s. 24.105, <i>F.S.</i>) ▪ Requires legislative budget approval for enhanced systems and technology ▪ Use of credit cards or other instruments issued by a bank for lottery purchases without purchase of \$20 in other goods would require a law change (s. 24.118, <i>F.S.</i>) ▪ Could be considered an expansion of gambling ▪ Could impact revenue from the gaming compact between the state and the Seminole Tribe of Florida
<p>Subscription Play Players can subscribe to game drawings for up to one year in advance on the Florida Lottery website</p>	<ul style="list-style-type: none"> ▪ The Department of the Lottery estimates potential revenue of about \$10 million annually in additional transfers to the Educational Enhancement Trust Fund. ▪ Internet technology has made subscription services much easier and more cost-effective for lotteries to manage. ▪ Key benefits for the consumers are no missed draws, no waiting in lines, and ease of prize claims. ▪ Provides the ability for people to play who may not be able to otherwise, such as seasonal residents and physically challenged residents ▪ Subscription play is offered by 10 U.S. lotteries. 	<ul style="list-style-type: none"> ▪ May require a statutory change to allow player-activated terminals (s. 24.105, <i>F.S.</i>) ▪ Use of credit cards or other instruments issued by a bank for lottery purchases without a purchase of \$20 in other goods would require a law change (s. 24.118, <i>F.S.</i>). ▪ Must comply within federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state ▪ Game changes require communication with players and possibly a replacement ticket. ▪ Could have an effect on unclaimed prize funds, as prizes may be automatically credited to players ▪ Could be considered an expansion of gambling

Option	Advantages	Disadvantages
<p>Expand Retailer Network Add additional corporate and independent Lottery retailers in both traditional locations, such as convenience and grocery stores, and non-traditional locations, such as chain drug stores, mass merchandisers, home improvement centers, bars, and restaurants</p>	<ul style="list-style-type: none"> ▪ Adding 2,800 new retailers has the potential to generate about \$88.5 million annually in additional transfers to the Educational Enhancement Trust Fund.¹ ▪ Florida has been below the average in terminal density compared to other successful Lottery states, so expanding its network should improve per capita sales. ▪ Could increase product distribution and awareness, making products available to new players who don't shop where products are currently being sold ▪ Expanding the retailer network has been shown to increase lottery sales more than advertising 	<ul style="list-style-type: none"> ▪ Requires legislative budget approval for more terminals ▪ Retailer expansion has been difficult during recession because retailer closings have been higher than new retailers recruited. ▪ The non-traditional lottery business model may require the development of different products, compensation frameworks, and distribution strategies. ▪ May require additional lottery staff to service new accounts
<p>Expand Full Service Vending Machines Increase the number of full service vending machines that dispense both scratch-off and draw game tickets</p>	<ul style="list-style-type: none"> ▪ The Revenue Estimating Conference predicted net education funding gains of \$21 million in the first full year of deploying 350 full service vending machines. ▪ Allows additional product access at high volume Lottery retailers ▪ Provides more convenience to players who do not want to stand in line to purchase tickets ▪ May attract large corporate retailers currently not selling lottery products because the vending machines minimize the need for on-site operators and increase player choice and the potential for larger sales ▪ Allows retailer network expansion into non-traditional retailer locations such as airports because the vending machines minimize the need for on-site operators ▪ Would not require a modification to the Lottery retailer contracts that require retailers to carry both scratch-off and draw games 	<ul style="list-style-type: none"> ▪ The 2012 Legislature provided budget authority of \$2.9 million to lease full service vending machines. Expanding the number of machines would likely require legislative budget approval to lease more vending machine units. ▪ Requires monitoring of underage play ▪ Some criticize the potential ease of access to problem gamblers.
<p>Electronic Instant Ticket Vending Machine Players touch a video screen and receive the image of the instant ticket on the screen to reveal the outcome of the ticket</p>	<ul style="list-style-type: none"> ▪ The Department of the Lottery projected potential recurring transfers to education ranging from \$33 million to \$114 million per year depending on how implemented. ▪ Provides a business model allowing retailer network expansion into non-traditional retailer locations, such as bars and restaurants 	<ul style="list-style-type: none"> ▪ Could impact revenue from the gaming compact between the state and the Seminole Tribe of Florida if these devices are deployed at any licensed pari-mutuel facility or if more than 10 machines are installed at any location ▪ Requires legislative budget authority to purchase or lease electronic instant ticket vending machines ▪ Requires monitoring of underage play ▪ Some stakeholders criticize the potential ease of access by problem gamblers.

¹ We estimated potential revenues from expanding the retailer network by assuming that the 2,800 retailers would achieve at least the average weekly gross sales new retailers achieved in 2012. The estimate assumes all 2,800 terminals being active for a full year and that 20% of their sales would be shifted from existing retailers.

Source: OPPAGA analysis of industry and Department of the Lottery information.

Appendix C

Estimates of Net Revenues for Video Lottery Terminals

The Governor approved a gaming compact between the State of Florida and the Seminole Tribe of Florida on April 7, 2010, which was ratified by the Legislature in Ch. [2010-29](#), *Laws of Florida*, and approved by the U.S. Department of the Interior on July 6, 2010. The compact provides the tribe with partial but substantial exclusivity with respect to the play of covered games in exchange for payments to the state derived from gaming proceeds.

Introducing video lottery terminals statewide could impact revenue from the gaming compact by potentially creating offsetting revenue losses that could affect whether the state achieves a net revenue increase. The compact states that in the event that the state authorizes expanded gaming beyond what was legal at the time of the signing of the compact, Seminole Tribe of Florida gaming payments may cease. As shown in Table C-1, Florida could implement video lottery terminals in several ways, some of which have greater potential to result in a net revenue increase after accounting for potential lost revenue from the gaming compact.

Table C-1
Introducing Video Lottery Terminals Could Be a Revenue Gain or Loss Depending on Implementation
 (estimates in millions)

Revenue Source	Class II Bingo Only ¹		Class II Games ¹		Class III Slot Machines ¹	
	Low Estimate	High Estimate	Low Estimate	High Estimate	Low Estimate	High Estimate
Video Lottery Terminals ²	\$192.4	\$360.2	\$213.8	\$400.3	\$285.1	\$533.7
Indian Gaming Revenues ³	226.9	226.9	226.9	226.9	226.9	226.9
Net Revenue	-\$34.5	\$133.3	-\$13.1	\$173.4	\$58.2	\$306.8

¹ As defined by the federal Indian Gaming Regulatory Act, class II gaming means the game of chance commonly known as bingo (whether or not electronic, computer, or other technologic aids are used in connection with it), but may include other games of chance such as pull-tabs, lotto, and other games similar to bingo, whereas class III gaming means all forms of gaming that are not class I gaming or class II gaming (25 U.S.C. 2703).

² We estimated net revenue from video lottery terminals by assuming that 1,000 video lottery terminals would be active a full year in 20 pari-mutuel facilities operating outside Broward and Miami-Dade counties. We developed the estimates based on Florida’s lowest pari-mutuel net income per slot machine and the highest net income per slot machine. We then adjusted these figures to a 35% tax rate and compensated for shifts from other state revenue sources including the Lottery, sales tax, and slot machine tax.

³ The Revenue Estimating Conference met November 8, 2012, and adopted this estimate for Indian Gaming revenues in Fiscal Year 2014-15.

Source: Revenue Estimating Conference and OPPAGA analysis.

Appendix D

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

FLORIDA LOTTERY

January 25, 2013

R. Philip Twogood
Coordinator
Office of Program Policy Analysis and Government Accountability
111 West Madison Street
Tallahassee, Florida 32399-1475

Dear Mr. Twogood:

The Lottery has received your office's report: "Lottery Revenue Has Increased Over the Past Year; Options Remain to Enhance Transfers." We appreciate the report recognizing the Florida Lottery's recent efforts, including the Lottery's operating expense continuing to be lower than the legislative standard. We value the efforts your staff has put forward during the analysis of the Lottery's performance and their efforts in identifying how it might be improved.

Our response centers on the "Department Options" detailed in the Recommendations section of the report.

1. Recommendation: The Department of the Lottery continues efforts to expand the retailer network and conduct a cost-benefit analysis of retailer recruitment efforts, as currently planned, at the end of Fiscal Year 2012-13. The department should also annually update the analysis and use the resulting data to evaluate the cost efficiency of recruitment activities, adjust these efforts as needed, and plan future activities.

Response: The Lottery agrees with this recommendation and has plans to complete the cost-benefit analysis of recruiting methods shortly after the close of FY 2012-13.

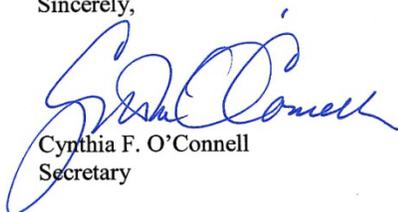


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flalottery.com

R. Philip Twogood
Coordinator
Office of Program Policy Analysis and Government Accountability
January 25, 2013
Page 2 of 2

I would like to thank your staff for their efforts on behalf of the Lottery and look forward to receiving your final report.

Sincerely,



Cynthia F. O'Connell
Secretary

cc: J. Bruce Hoffmann, Chief of Staff
Glenda Thornton, General Counsel
Cynthia B. Jackson, Chief Financial Officer
Dennis Harmon, Deputy Secretary
Andy Mompeller, Inspector General
Kim B. Mills, Director of Auditing, Executive Office of the Governor

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



OPPAGA provides performance and accountability information about Florida government in several ways.

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- Government Program Summaries (GPS), an online encyclopedia, www.oppaga.state.fl.us/government, provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
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Project supervised by Becky Vickers (850/717-0515)
Project conducted by Mark Frederick (850/717-0505)
David Summers (850/717-0555), Staff Director, Education Policy Area
R. Philip Twogood, Coordinator

24.123 Annual audit of financial records and reports.—

(1) The Legislative Auditing Committee shall contract with a certified public accountant licensed pursuant to chapter 473 for an annual financial audit of the department. The certified public accountant shall have no financial interest in any vendor with whom the department is under contract. The certified public accountant shall present an audit report no later than 7 months after the end of the fiscal year and shall make recommendations to enhance the earning capability of the state lottery and to improve the efficiency of department operations. The certified public accountant shall also perform a study and evaluation of internal accounting controls and shall express an opinion on those controls in effect during the audit period. The cost of the annual financial audit shall be paid by the department.

(2) The Auditor General may at any time conduct an audit of any phase of the operations of the state lottery and shall receive a copy of the yearly independent financial audit and any security report prepared pursuant to s. [24.108](#).

(3) A copy of any audit performed pursuant to this section shall be submitted to the secretary, the Governor, the President of the Senate, the Speaker of the House of Representatives, and members of the Legislative Auditing Committee.

History.—s. 23, ch. 87-65; s. 4, ch. 2001-89.

GOVERNOR RICK SCOTT



*Chief Inspector General & Agency
Inspectors General -
An Overview*

February 4, 2013

Chief Inspector General

Section 14.32 F.S.

- **Authority**
 - **Initiate, supervise, conduct investigations**
 - **Deter, Detect, Prevent, and Eradicate Fraud, Waste, Abuse, Mismanagement, Misconduct**



Chief Inspector General

Section 14.32 F.S.

- **Authority**
 - Investigate, upon receipt of a complaint or for cause, any administrative action of any agency, under the supervision of the Governor, regardless of finality of the administrative action



Chief Inspector General

Section 14.32 F.S.

- **Authority**
 - **Request Assistance and Information**
 - **Examine Records**
 - **Coordinate Complaint Handling Activities with Agencies**



Chief Inspector General

Section 14.32 F.S.

■ Authority

- Review, evaluate, and monitor the policies, practices, and operations of the Executive Office of the Governor (EOG)
- Conduct special investigations and management reviews at the request of the Governor
- Serve as the IG for the EOG
 - Section 20.055, F.S. – The IG Act



Chief Inspector General

Section 14.32 F.S.

- **Liaison Activities**
 - **FDLE**
 - **Outside agencies**
 - **Federal Government**
 - **IGs under the Governor's jurisdiction (liaison with and monitor the activities)**



Chief Inspector General

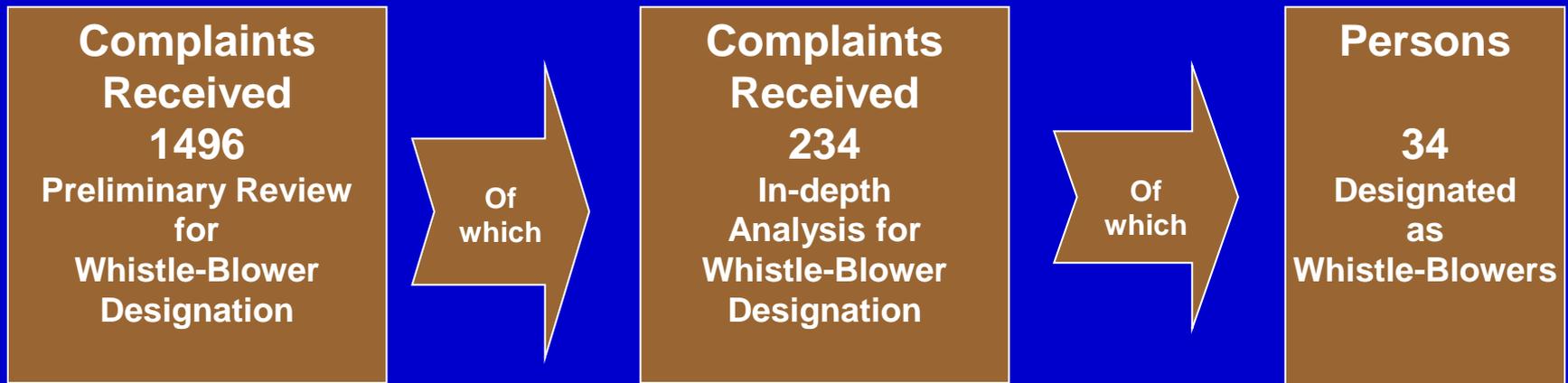
Section 14.32 F.S.

- **Ensure compliance with The Whistle-Blower's Act**
 - **Sections 112,3187 -112.31895, F.S.**
 - ✓ **Hotline**
 - ✓ **Investigations**



Whistle-Blower Activities

Summary of Whistle-Blower Designations FY 2011-2012



The Inspector General Act

Section 20.055 F.S.



- Inspector General in each state agency
- General supervision by the Agency Head
 - Not subject to supervision by other staff
 - Dotted line to the CIG for agencies under the Governor
- Conduct inquiries free of actual or perceived impairment to independence

The Inspector General Act Section 20.055 F.S.



Agency Head must notify the Governor (and
ClG if Governor's Agency) in writing of the
intent to hire or terminate at least 7 days in
advance

IGs are appointed without regard to political
affiliation

Section 20.055 F.S.

Inspector General Qualifications

- Inspector General or the Director of Auditing shall possess the following qualifications:
 - ✓ Bachelor's Degree in Accounting or Business with 5 courses in accounting and
 - ✓ 5 years of experience as an internal auditor or independent postauditor, electronic data processing auditor, accountant, or any combination thereof; or

Section 20.055 F.S.

Inspector General Qualifications

- ✓ **Master's Degree in Accounting, Business Administration, or Public Administration and 4 years of experience; or**
- ✓ **CPA license issued pursuant to Chapter 473, Florida Statutes, or a CIA certificate issued by the Institute of Internal Auditors or earned by examination, and 4 years of experience as required.**

Inspector General Authority

Section 20.055 F.S.

- **Promote Accountability, Integrity, and Efficiency**
- **Conduct Audits and Investigations**
- **Keep Agency Head informed of Fraud, Waste and Abuse**
- **Recommend Corrective Actions**

Inspector General Authority

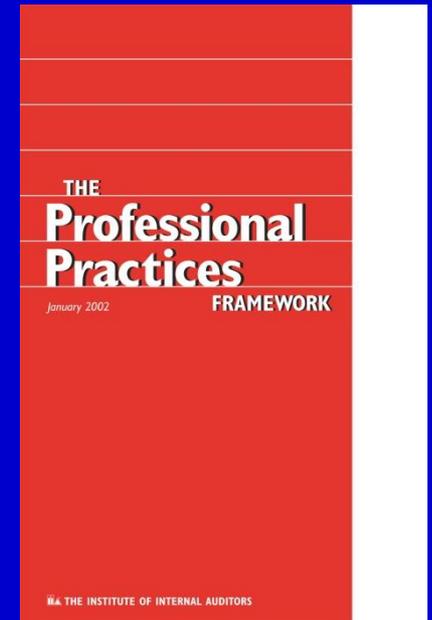
Section 20.055 F.S.

- **Maintain a balance between audit, investigative, and other accountability activities**
- **Conduct all inquiries free of actual or perceived impairment**
- **Granted access to any and all records, data, and other information of the agency and programs funded by the agency**



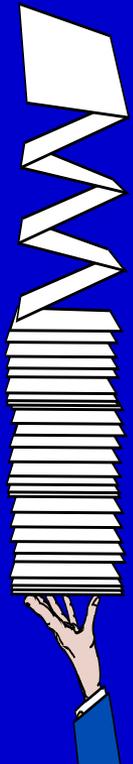
Professional Standards

- ✓ **Section 20.055, F.S., mandates that audits conducted by the Office of Inspector General be conducted in accordance with applicable auditing standards.**
- ✓ **Section 20.055, F.S. mandates that OIGs comply with Standards of the Association of Inspectors General**



Quality Assessment Review – Auditor General

- **Conducted by the Auditor General**
- **Performed every 3 Years**
- **Verify the following:**
 - **Auditing Standards are followed**
 - **Office complies with Statutory Mandates**
 - **Audit Staff are qualified as outlined in Statutes**
 - **Audit Staff receive a minimum of 40 hours of Continuing Professional Education per year in topics such as auditing, government, finance, accounting, investigations, evidence, law.**



Investigations



- **Receive and coordinate complaints**
- **Conduct investigations**
- **Coordinate Whistle-Blower's Act activities**
- **Liaison with appropriate law enforcement agencies**
- **Recommend and monitor corrective actions**
- **Keep agency head informed**

Inspector General Responsibilities

- Required by law to report to an appropriate law enforcement agency when there are reasonable grounds to believe that a criminal violation has occurred



Note: Section 20.055, Florida Statutes; Commissioner of Florida Department of Law Enforcement & Chief Inspector General issued a protocol for referrals made to the Florida Department of Law Enforcement

Florida Inspector General Accreditation

Accredits the
Investigative
Function in an
OIG
Outside
Independent
Assessment
Ensures
Standards and
Proofs are Met



INSPECTOR GENERAL ACCREDITATION WEBSITE

Accreditation - Windows Internet Explorer provided by Florida Dept. of Transportation

http://www.dot.state.fl.us/inspectorgeneral/Accreditation/Accreditation.shtm

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May 14, 2009

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Office of Inspector General
605 Suwannee St., MS 44
Tallahassee, FL 32399

Phone: (850) 410-5800
FAX: (850) 410-5851

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Office of Inspector General
Ron Russo, Inspector General

Accreditation Process

OBJECTIVES	DOT	CIG	DOS	AHCA	OIR	DBPR	DCF	DOR	DEP	DFS	DOH	HSMV	DOE	LOT	AWI	DJJ	Miami Dade
Chapter 1												CH1					
Standards	1.01.1.02 & 1.04 1.03&1.05 1.08								102M 103M 105M 108M								
Chapter 2												CH2					
Standards	2.01-2.03								2.01&03 2.04								
Chapter 3					CH3				CH3							CH3	
Standards	3.01-3.03				CH3				3.01-03								
Chapter 4												CH4				CH4	
Standards																4.01-4.10	
Chapter 5								CH5				CH5					
Standards																	

Trusted sites 100%

GOVERNOR RICK SCOTT



Melinda M. Miguel
Chief Inspector General
(850) 717-9264

Comparison of the Roles of the Auditor General and Inspectors General

AUDITOR GENERAL – Florida Constitution and ss. 11.42, 11.45, F.S.	INSPECTOR GENERAL – s. 20.055, F.S.
<p>APPOINTMENT AND REMOVAL</p> <p>Appointed by the Legislative Auditing Committee (LAC), with confirmation by both Houses.</p> <p>Termination by majority vote of both Houses.</p>	<p>APPOINTMENT AND REMOVAL</p> <p>Appointed and terminated by Agency Head.</p> <p>For Agencies under the Governor, 7 day notice to Governor and Chief Inspector General of intent to hire or terminate.</p>
<p>BUDGET AUTHORITY</p> <p>Auditor General makes all spending decisions within budget approved by Senate President and House Speaker.</p>	<p>BUDGET AUTHORITY</p> <p>IG budget part of the Agency’s budget.</p>
<p>PROFESSIONAL STANDARDS</p> <p>As applicable, work is conducted in accordance with AICPA generally accepted auditing standards, AICPA attestation standards, and Government Auditing Standards.</p>	<p>PROFESSIONAL STANDARDS</p> <p>Audits conducted in accordance with International Standards for the Professional Practice of Internal Auditing or Government Auditing Standards.</p> <p>Investigations conducted in accordance with the General Principles and Standards for Offices of Inspector General as published by the Association of Inspectors General.</p> <p>Refer criminal violations to law enforcement.</p>
<p>TYPES OF ENGAGEMENTS (External Auditor)</p> <p>Financial Statement Audits, including OMB Circular A-133 Audits (Audits of Federal Awards).</p> <p>Operational and Performance Audits - Scopes based on risk assessments, statutes, and input from Legislative committees.</p>	<p>TYPES OF ENGAGEMENTS (Internal Audit and Investigations)</p> <p>Financial-related, Operational, Performance, and Information Technology Audits</p> <p>Contract Reviews</p> <p>Management Reviews</p>

<p>Information Technology Audits</p> <p>Attestation Engagements</p> <p>Quality Assurance Reviews of Internal Audit Functions</p> <p>Promulgation of rules for financial audits of Local Governments, District School Boards, Charter Schools, Florida Single Audit Act, and Certain Non Profit Organizations.</p>	<p>Receives complaints and conducts investigations of alleged violations of law and rules, including fraud, waste, abuse, mismanagement, misconduct. Included Whistleblower.</p> <p>Consulting Services</p> <p>Periodic Risk Assessments</p>
<p>ENTITIES REVIEWED OR AUDIT UNIVERSE</p> <p>State Government, State Universities, State Colleges, District School Boards, Local Governments, and any other governmental entities created or established by Florida law.</p>	<p>ENTITIES REVIEWED</p> <p>Agency programs, operations, information systems, contracts and contractors, grants, providers and employees.</p>
<p>COMMUNICATION</p> <ul style="list-style-type: none"> • Preliminary and Tentative Findings issued for comment by governing officials of the audited entity. • Final Reports Issued to Legislature, Governing Officials, and Federal Grantors. All reports posted on Auditor General’s Web site. 	<p>COMMUNICATION</p> <p>Direct communication with Agency Head, both formal and informal.</p> <ul style="list-style-type: none"> • Reports Issued for Comments by “Auditee” or “Substantially Affected Individuals” • Final Reports Issued to the Agency Head
<p>WORKPAPERS (Audits)</p> <p>Audit workpapers are not public record, but may be made available by majority vote of the LAC.</p>	<p>WORKPAPERS (Audits and Investigations)</p> <p>Audit workpapers and investigative materials are generally public record, unless specific statutory exemption applies (e.g. data security, Whistleblower, HIPAA).</p>
<p>AUDIT REPORTS</p> <p>Audit reports become public record when final.</p>	<p>AUDIT AND INVESTIGATIVE REPORTS</p> <p>Audit reports and Investigative reports are generally public record.</p>

<p>CONSIDERATION OF IG INTERNAL AUDITS</p> <p>Auditor General, in connection with the independent postaudit of the same agency pursuant to s. 11.45, F.S., shall give appropriate consideration to internal audit reports and the resolution of the findings therein.</p> <p>The LAC may inquire into the reasons or justifications for failure of the agency head to correct the deficiencies reported in internal audits that are also reported by the Auditor General and shall take appropriate action.</p>	<p>CONSIDERATION OF REPORTS</p> <p>The IG shall monitor the implementation of the state agency’s response to any report of the state agency issued by the Auditor General or by OPPAGA.</p> <p>Not later than 6 months after the AG and OPPAGA published a report on the state agency, the IG shall provide a written response to the agency head on the status of corrective actions taken.</p> <p>The IG shall file a copy of such response with the LAC.</p> <p>The IG shall ensure effective coordination and cooperation between the Auditor General, federal auditors, and other governmental bodies with a view toward <i>avoiding duplication</i>.</p> <p>IGs shall ensure an appropriate balance is maintained between audit, investigative, and other accountability activities.</p>
<p>ANNUAL REPORTS</p> <p>AG provides reports to the Presiding Officers and the LAC:</p> <ul style="list-style-type: none"> • Projected Two-Year Work Plan • Statutory and Fiscal Changes 	<p>ANNUAL REPORTS</p> <p>IGs prepare annual reports that are submitted to the Agency Head by September 30 of each year.</p>
<p>PEER REVIEW</p> <p>Peer review obtained every three years as required by Government Auditing Standards.</p>	<p>PEER REVIEW</p> <p>OIG audit activities are peer reviewed every three years by the Auditor General.</p> <p>OIG Accreditation for investigative activities is not mandated by statute.</p>