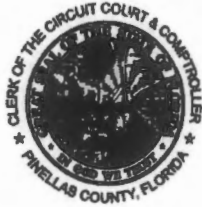


9. REPORTS TO BE RECEIVED FOR FILING:

Reports to be Received for Filing:

- a. Division of Inspector General, Audit Services, Clerk of the Circuit Court and Comptroller, Report No. 2013-26 dated September 10, 2013 – Follow-Up Audit of the 2000-2010 Penny for Pinellas Sales Tax Distribution and Expenditures.
- b. Dock Fee Report for the month of August 2013.



Ken Burke, CPA


CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

Clerk of the County Court
Recorder of Deeds
Clerk and Accountant of the Board of County Commissioners
Custodian of County Funds
County Auditor

Division of Inspector General

510 Bay Avenue
Clearwater, FL 33756
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Fraud Hotline: (727) 453-FRAUD (3728)
Clerk's website: www.mypinellasclerk.org

TO: The Honorable Chairman and Members
of the Board of County Commissioners

FROM:  Ken Burke, CPA
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor

SUBJECT: Follow-Up Audit of the 2000-2010 Penny for Pinellas Sales Tax
Distribution and Expenditures

DATE: September 10, 2013

For your review and filing in the Official Records, I am enclosing a copy of the follow-up audit dated September 10, 2013 on the above-referenced audit.

I hope you find this report helpful in ensuring Pinellas County government provides the best possible service to our citizens.

cc: Robert S. LaSala, County Administrator
Mark Woodard, Assistant County Administrator
Jim Bennett, County Attorney
Jacqueline Trainer, Manager, Office of Management & Budget
Eric C. Naughton, Director, Office of Management & Budget
Clairetha N. Harris, Chief Deputy Director, Finance Division
Crowe Horwath



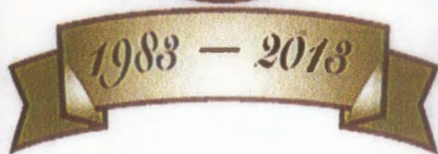


DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

FOLLOW-UP AUDIT OF THE 2000-2010 PENNY FOR PINELLAS SALES TAX DISTRIBUTION AND EXPENDITURES



An Accredited Office of
Inspectors General

Hector Collazo, Jr., Director
Inspector General/Chief Audit Executive

Audit Team

Ronald Peters, CIA, CISA, CIGA, CRMA – Inspector General Manager
Melissa Dondero, CPA, CIA, CIGA, CITP, CRMA – Inspector General Auditor III

SEPTEMBER 10, 2013
REPORT NO. 2013-26



Ken Burke, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

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Recorder of Deeds
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September 10, 2013

The Honorable Chairman and Members of the Board of County Commissioners

We have conducted a Follow-Up Audit of the 2000-2010 Penny for Pinellas Sales Tax Distribution and Expenditures. The objective of our review was to determine the implementation status of our previous recommendations.

Of the 18 recommendations contained in the audit report, we determined that 7 have been implemented, 4 have been partially implemented, 4 have not been implemented, and 3 are no longer applicable. The status of each recommendation is presented in this follow-up review. We encourage management to implement the remaining four recommendations.

We appreciate the cooperation shown by the staff of the Office of Management and Budget during the course of this review.

Respectfully Submitted,

Hector Collazo, Jr., Director
Division of Inspector General

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor

*Regulated by the State of Florida



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INTRODUCTION

Scope and Methodology

We conducted a Follow-Up Audit of the 2000-2010 Penny for Pinellas Sales Tax Distribution and Expenditures. The purpose of our follow-up review is to determine the status of previous recommendations for improvement.

The purpose of the original audit was to:

- 1) Determine overall compliance with Florida Statutes and proper County accounting policies and procedures.
- 2) Review the overall processes for budgeting and expenditures; evaluate internal controls surrounding these processes.
- 3) Evaluate the adequacy and accuracy of the information presented to the public and the Board of County Commissioners.

To determine the current status of our previous recommendations, we surveyed and/or interviewed management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the implementation of the recommendations for improvement.

Our follow-up audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Standards for Offices of Inspector General*, and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our follow-up testing was performed during the months of April and June 2013. The original audit period was February 1, 2000 through January 31, 2010 (First Penny for Pinellas Extension). However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

Of the 18 recommendations in the report, we determined that 7 have been implemented, 4 have been partially implemented, 4 have not been implemented, and 3 are no longer applicable. We commend management for implementation of most of our recommendations and continue to encourage management to fully implement the remaining recommendations.

Status

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
1	<i>The Capital Improvement Program Budget Process Needs Improvement.</i>					
	A. Management develop realistic budgets for projects included in the CIP. The budget developed should be based on an estimate supported by calculations and supporting documentation retained. The budget should reflect the anticipated expenditures and resources for the given time frame.			✓		
	B. For each subsequent year of a project's implementation, the project status be evaluated and required updates be reflected in the CIP budget and resource section. Changes should be reflected in the CIP Summary of Changes.	✓				
	C. Internal controls and procedures be put into place to prevent the issues noted.			✓		
	D. Management conduct a due diligence review of the budgets for current Penny for Pinellas capital projects.	✓				
2	<i>Risks Associated With Deferring Projects Are Not Adequately Disclosed To The Board Of County Commissioners.</i>					
	Management review the budgeting procedures and internal controls for capital projects funded by the Penny for Pinellas. The budgeting process should include, but not be limited to: <ul style="list-style-type: none"> • Required documentation for the initial project budget. • A required reconciliation of significant changes 			✓		

Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	for each project between the prior year budget and the current budget with changes documented in the CIP Summary of Changes. <ul style="list-style-type: none"> • A requirement that budgeted projects not be started until reasonable assurance is obtained that adequate funding is available. • When budgeted projects with expenditures are deferred, an analysis document be presented to decision makers that includes the risk related to sunk costs for the projects. 					
3	<i>CIP Expenditures Totaling \$2,155,302 Were Charged To The Incorrect Project Cost Center.</i>					
	A. Determine where the breakdown in internal controls occurred that allowed the errors noted to occur. Correct the issues to ensure functioning controls are in place to prevent, detect, and correct these types of errors in the future.	✓				
	B. Develop guidelines on defining project scope, project phases, splitting projects, sub-projects, and grouping of projects so the CIP is more clear and easily understood. The definition and criteria for the capital improvement budget requests should address what constitutes a capital project.			✓		
4	<i>Penny For Pinellas 2000-2010 Expenditure Reporting Is Unclear.</i>					
	Management adjust the "First Penny for Pinellas Extension 2000-2010 Expenditures by Project" report to accurately report projects funded by the Penny for Pinellas tax revenue or clearly state that projects listed include expenditures paid by other funding sources. Adding a column to the	✓				

Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	report marking which projects were fully or in part funded by the Penny for Pinellas would help clearly show users Penny for Pinellas projects vs. CIP projects funded by other means.					
5	<i>Available Documentation On Four Projects Does Not Support The Use Of \$4,969,072 In Penny For Pinellas Revenue Funds.</i>					
	A. Request a legal review of the noted projects for qualification to be funded by the Penny for Pinellas. For PID 725, this review has to be done at the transaction level.				✓	
	B. Put into place internal controls that ensure projects submitted by departments and the expenses processed for the projects qualify as fixed capital assets and/or Penny for Pinellas funding.	✓				
	C. Reimburse the Penny for Pinellas fund for any project costs determined by the legal review as not qualified for Penny funding.				✓	
6	<i>\$541,030.66 Of Penny For Pinellas Funds Was Used To Front The Balance Of The Cost Of A Transportation Impact Fee Funded Project.</i>					
	Internal controls be put into place to prevent reoccurrence.				✓	
7	<i>Internal Capitalized Billings Should Be Captured At The Project Level, Not The Functional Level To Increase Transparency.</i>					
	A. Define and explain capitalized billings in the CIP documentation. In addition, disclose the effect of capitalized billing costs on CIP funding to the BCC and the public on the OMB webpage.					✓

Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	B. Include capitalized billings as a cost category in the 2011-2020 CIP so future projects do not have to be cancelled or deferred to cover the unbudgeted capitalized billing costs.					✓
8	<i>Grant Funding For The Brooker Creek Preserve Interpretive Signs Project Was Not Properly Reported.</i>					
	A. Grant funding not be requested for projects until the project is adequately planned and budgeted for.				✓	
	B. Priority be given to projects with strict time constraints to mitigate possible loss of funding.	✓				
	C. All funding resources secured or reasonably known to be available to support a capital improvement project's implementation be listed in the CIP document.	✓				
9	<i>One Bill Of Sale For Art In Public Places Project Is Not In The Possession Of The County.</i>					
	Management locate the missing bill of sale and maintain all relevant supporting documentation for the project in a designated file.					✓

Background

The Penny for Pinellas is a 1% sales tax, which is dedicated to capital improvement projects in Pinellas County, such as facilities, stormwater improvements, preservation land purchases, roads, bridges, public safety, parks, and community centers. The Penny makes capital projects and improvements possible without having to raise property taxes. Without this funding, it is estimated that property owners would have to pay another 2 mills on their property taxes. As a sales tax, approximately one-third of the total Penny funds are paid for by tourists and seasonal residents.

Penny Facts:

- The Penny for Pinellas is a 1-cent sales tax in effect since 1990.
- Benefits our economy and adds value to our County by funding roads, bridges, parks, drainage, and other capital improvement projects.
- Funds new capital projects without relying on property taxes. Paid by all who spend money in the County, including tourists who contribute more than a third of its revenue.
- Shared between the County and cities.
- Can only be used for capital improvement projects.
- Is only collected on the first \$5,000 of purchases.
- Is not collected on groceries, medications, and other statutory exemptions.

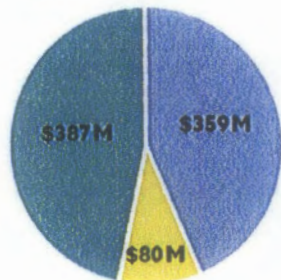


PENNY
FOR PINELLAS

The original 1990 – 2000 Penny for Pinellas was approved by voters on November 7, 1989 and covered the time frame of 1990 to 2000. Prior to the adoption of the Penny for Pinellas, the property tax levy was the primary funding source for the Capital Improvement Program. The Penny for Pinellas provided property tax relief, since it replaced property taxes as the primary capital funding source. The original Penny collected \$826 million. It contributed approximately 75 percent of the total revenue mix supporting the Capital Improvement Program for the 10 year period.

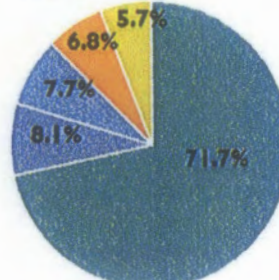
Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

**Revenue
Distributions
1990 - 2000**



■ Pinellas County \$387M
 ■ Municipalities \$359 M
 ■ Courts & Jails \$80 M

**Expenditures
by Classification
1990 - 2000**



■ Transportation Program 71.7%
 ■ General Government Facilities 8.1%
 ■ Surface Water Mgmt. 7.7%
 ■ Park Development & Facilities 6.8%
 ■ Environmentally Sensitive Land Acquisition 5.7%

GOVERNMENT FACILITIES/
COURT & JAIL FACILITIES



Criminal Justice Center

PARKS &
OPEN SPACES



Florida Botanical Gardens

TRANSPORTATION
IMPROVEMENTS



BaySide Bridge

SURFACE WATER/
DRAINAGE IMPROVEMENTS



Walsingham Reservoir



First Penny Extension

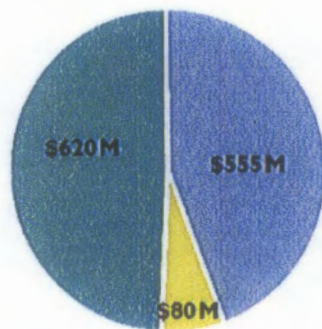
2000 - 2010

PENNY
FOR PINELLAS

The 2000 – 2010 Penny for Pinellas was extended by countywide referendum on March 25, 1997 for another 10-year period, from February 1, 2000 through January 31, 2010. The tax was approved by 65% of the voters. Extending the Penny for Pinellas generated approximately \$1.26 billion over 10 years. About half was used for County projects and the remainder allocated to the 24 municipalities. Allocation between the County and municipalities is formula based and is set over the 10 year period.

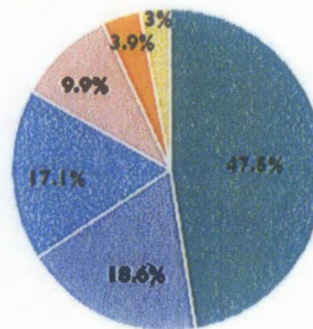
Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

**Revenue
Distributions
2000 - 2010**



■ Pinellas County \$620M
 ■ Municipalities \$555M
 ■ Courts & Jails \$80M

**Expenditures
by Classification
2000 - 2010**



■ Transportation 47.5%
 ■ Culture & Recreation 18.6%
 ■ General Facilities 17.1%
 ■ Surface Water Mgmt. 9.9%
 ■ Coastal Mgmt. 3.9%
 ■ Conservation/Preserves 3%

2000 - 2010 Expenditures



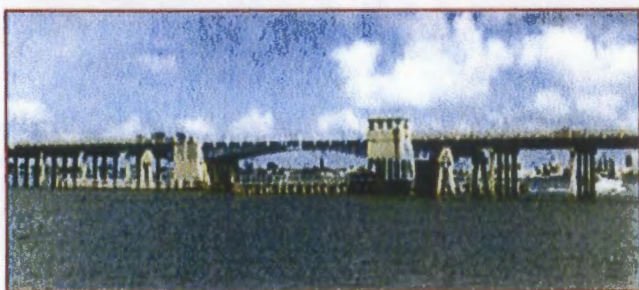
Note: The two Expenditures by Classification pie charts above do not include Penny expenditures made by the local Municipalities and Courts and Jails.



PENNY
FOR PINELLAS

The 2010 – 2020 Penny for Pinellas was recently extended again for another 10 year period, from 2010-2020, and is expected to generate an estimated \$1.4 billion.

PENNY PROJECTS EXAMPLES OF PLANNED PENNY PROJECTS



BRIDGE REHABILITATION PROGRAM Allocation \$50,000,000

Rehabilitation work as needed to preserve the integrity of the county's bridge system. Examples include Beckett Bascule Bridge, Lake Tarpon Outfall Bridge, Crosswinds Canal Bridge, Stephanie's Channel Bridge Replacement, Orange Avenue Bridge, Ozona-Tampa Road Bridge, Shore Drive Bridge, and Westwind Canal Bridge.



RAILROAD CROSSING IMPROVEMENTS Allocation \$3,750,000

Reconstruction of rail crossings and roadway approaches countywide. Examples include Hercules Avenue, 49th Street, Belleair Road, and 54th Avenue.



ROAD RESURFACING AND REHABILITATION Allocation \$66,000,000

Rehabilitation and resurfacing, ride quality and pavement preservation on countywide arterials, collectors and local subdivision streets in unincorporated areas. This funding will move the county toward having all county roadways reach the pavement condition rating of excellent.



FORT DE SOTO PARK IMPROVEMENTS Allocation \$5,000,000

Enhancements to Fort De Soto Park, including camping upgrades, Fort De Soto structural improvements, dune walkovers, improved water circulation, Bay Pler replacement, and various facility renovations and improvements.

Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

Capital projects funded by Penny for Pinellas are part of the Pinellas County Capital Improvement Program (CIP). The CIP is a comprehensive plan of proposed capital projects intended to identify and balance the capital needs of the community within the fiscal capabilities and limitations of the County. Projects are established in the CIP based on input from citizen requests, safety needs, planned rehabilitation cycles, grant funding processes, County staff, the Metropolitan Planning Organization's Long Range Transportation Plan, as well as other sources. The CIP is on a six year cycle and is updated annually. The first year of the program is the basis for actual appropriations authorized by the Board of County Commissioners for capital projects when adopting the Annual Budget. The remaining five years are a guide for the future development of the County's new and replacement infrastructure needs. Department management reviews each project submitted for inclusion to the CIP and submits qualified projects to the County Administration for review and approval. The Board of County Commissioners conducts a final review of the program at public budget workshops and at annual public budget hearings prior to adoption of the Annual Budget. The Penny for Pinellas is the largest funding source for capital improvements.

STATUS OF RECOMMENDATIONS

This section reports our follow-up on actions taken by management on the Recommendations for Improvement in our original audit of the 2000-2010 Penny for Pinellas Sales Tax Distribution and Expenditures. The recommendations contained herein are those of the original audit, followed by the current status of the recommendations.

1. *The Capital Improvement Program Budget Process Needs Improvement.*



Capital Improvement Program



Based on the analysis of 11 selected Capital Improvement Program (CIP) projects funded by the Penny for Pinellas tax, there is a lack of sufficient documentation supporting the development of the project budget and inadequate updating of the budget amount, project scope, and project timing to account for project changes.

We reviewed the CIP budgeting process by analyzing original budgets, subsequent planned amounts, and change documentation for Penny for Pinellas projects. The original budget for our review purposes is the first year the Board of County Commissioners (BCC) approves a project's budget to be included in the CIP. The original budget amount includes that first year's budget amount plus any subsequent year's CIP planned amounts, totaling the estimated cost to complete the project. The Summary of Changes contained in the CIP document explains project changes, including budget adjustments, from the previous fiscal year.

We found that overall, budgets are not sufficient in funding level and project timing. There is lack of documented support for the total project budget and no indication of the reliability of the amount. We found project budgets resulting from detailed engineering estimates, others based on a rough estimate developed by management and some with no documentation on how the budget was derived. Many budgets varied greatly from year to year, but explanation for the changes were poorly or not at all documented. In addition, there is no comparison performed between project actual expenditures and budget amounts to measure the effectiveness of the budgeting process.

Status of Recommendations

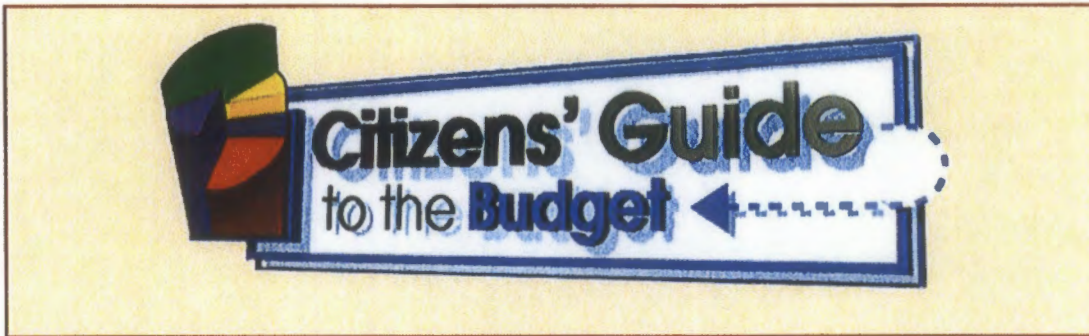
Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

Our review found:

- Documentation supporting the original budget was not found for nine of the 11 projects reviewed.
- There were three projects in which contracts or purchase orders existed that exceeded the estimated total cost of the project.
- There were eight projects where the information for budget changes was not explained entirely or accurately. These eight projects included 16 instances over the life of projects where the Summary of Changes explanation was not adequate to explain the adjustment in budget.
- Actual project expenditures exceeded the original budget for three of the eight completed projects we reviewed. We noted this same issue in our previous audit of the 1990-2000 Penny for Pinellas. While management has put into place a Construction Management System to address this issue, additional controls are needed to develop realistic budgets.

The following table aggregates the issues we found during our review:

Ref.	Project ID Project Title	No Supporting Documents for Capital Budget/CIP Plan	Contract Amount Greater Than Budget	Budget Changes Not Explained In Summary of Changes	Actual Expenditures Exceed Original Budget
A.	#655 Belcher-38 th Ave. to 54 th Ave.	✓			Deferred
B.	#659 Brooker Creek Hydro Habitat Impact Study	✓		✓	
C.	#870 Starkey-Ulmerton to East Bay Dr.	✓		✓	Deferred
D.	#953 Weedon Island Boardwalk Reconstruction	✓		✓	✓
E.	#1067 Brooker Creek Signs		✓	✓	✓
F.	#1145 Signal System Consultation Svcs.	✓			
G.	#1263 Countywide Building Program	✓		✓	
H.	#1395 PC Courthouse Granite Panel	✓	✓	✓	✓
I.	#1477 PW Emergency Responder Building	✓	✓	✓	
J.	#922378 Sawgrass Lake Park Boardwalk	✓		✓	



According to the "Citizens Guide to the Budget, Budget Terms" published by the Office of Management and Budget (OMB), the Capital Improvement Program is:

"A proposed plan, covering each year of a fixed period of years, for financing long-term work projects that lead to the physical development of the County."

The Capital Budget is:

"The financial plan of capital project expenditures for the fiscal year beginning October 1. It incorporates anticipated revenues and appropriations included in the first year of the six year Capital Improvements Program, and any anticipated unspent appropriation balances from the previous fiscal year. The Capital Budget is adopted by the Board of County Commissioners as a part of the annual County Budget."

The Penny for Pinellas projects' capital budgets that are presented to and approved by the BCC should be supported by adequate documentation. In addition, changes to the project budget should be updated, supported, and performed timely. However, there are no formal standardized procedures that specify what project documentation is required to be maintained to support cost estimates, project changes, and budget variances.

The inadequate CIP budget process affects several areas in planning and funding Penny for Pinellas capital projects. For instance:

- If a project's time to completion is extended, time sensitive costs may not be identifiable and adjusted accordingly if there is no documentation supporting these amounts.
- If project assumptions change, without supporting budget information, an evaluation for an updated budget cannot be accurately completed.
- If project budgets are not updated accurately and timely, projects may be started with no funding available to complete the project.
- If adequate budgeting is not performed and a project is deferred due to lack of funding, the usability of costs already incurred may be substantially lost.
- If individual project budgets are inaccurate, the total capital budget being submitted to the BCC is not accurate and may affect Penny for Pinellas project planning.

It is important to note that we only reviewed 11 out of 605 projects funded with 2000-2010 Penny for Pinellas funds and each of the 11 projects had one or more issues as discussed in this Opportunity for Improvement and the remainder of this report. If this error rate is indicative to the overall management of Penny for Pinellas funds, additional due diligence should be conducted on current capital projects.

We Recommended:

- A. Management develop realistic budgets for projects included in the CIP. The budget developed should be based on an estimate supported by calculations and supporting documentation retained. The budget should reflect the anticipated expenditures and resources for the given time frame.
- B. For each subsequent year of a project's implementation, the project status be evaluated and required updates be reflected in the CIP budget and resource section. Changes should be reflected in the CIP Summary of Changes.
- C. Internal controls and procedures be put into place to prevent the issues noted.
- D. Management conduct a due diligence review of the budgets for current Penny for Pinellas capital projects.

Status:

- A. **Partially Implemented.** The Capital Improvement Plan is updated each year during the annual budget process. OMB met with CIP departments during December 2012 to review budgets and discuss developing realistic budgets and timeframes. A CIP Action Team has been formed and tasked (in part) with developing CIP "end-to-end" procedures and implementing Project Management technology. Without the new budget procedures completed by the CIP Action Team, IG cannot determine the extent of improvement in the budget process. A CIP Status Report is compiled every two months and distributed to departments and County Administration, which allows for closer monitoring of projects. There is still risk in planning and funding Penny for Pinellas capital projects; however, corrective action is in progress.
- B. **Implemented.** The CIP Summary of Changes is submitted each year during the budget process to document changes between the current ten-year plan and the requested ten-year plan. The CIP Summary of Changes includes all CIP projects.
- C. **Partially Implemented.** A CIP Action Team has been formed and tasked (in part) with developing CIP "end-to-end" procedures and implementing project management technology. Without the new budget procedures completed by the CIP Action Team, IG cannot determine the extent of improvement in the budget process. There is still risk in planning and funding Penny for Pinellas capital projects; however, corrective action is in progress.

- D. **Implemented.** Penny Allocations are reviewed annually and adjusted to reflect shortfalls or surpluses.

2. ***Risks Associated With Deferring Projects Are Not Adequately Disclosed To The Board Of County Commissioners.***


A weak budgeting process has resulted in Penny for Pinellas projects being deferred after significant costs have been incurred that may not be recoverable. We analyzed Penny for Pinellas funded road construction projects presented to the BCC in the "Capital Improvement Program Status Update of February 1, 2011" presentation. Six of the projects were reported as "Deferred" and one reported as "In Progress"; however, all the explanations stated, "deferred due to funding" as shown:

2000 – 2010 Penny Program		
Program Funding Area	Status	Comments
TRANSPORTATION PROJECTS		
Belcher Road from Alderman Road to Koesterman Road	COMPLETE	
Bryan Dairy Road from Starkey Road to 72 nd Street	IN PROGRESS	Advised for construction
CR 296 and Gandy Blvd Intersection Improvements – Access to I-275	COMPLETE	Completed by FDOT
Keystone Road from US19 to East Lake Road including Pinellas Trail Extension	IN PROGRESS	Under construction
Memorial Causeway Bridge	COMPLETE	\$10M funding contribution to the City of Clearwater
Roadway Landscaping and Beautification	COMPLETE	
Ulmerton Road FDOT 58 th to Roosevelt Project Assistance	COMPLETE	FDOT responsible
62 nd Ave North from 49 th Street to 34 th Street	IN PROGRESS	Under design; construction deferred due to funding
Belcher Road from 54 th Ave North to 36 th Ave North	IN PROGRESS	Under design; construction deferred due to funding

Note – The "62nd Ave. North from 49th Street to 34th Street" Program Funding Area project construction was deferred, however, the project was not part of our sample.

Status of Recommendations

Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

2000 – 2010 Penny Program		
Program Funding Area	Status	Comments
PROJECTS DEFERRED OR CANCELED		
Clearwater Complex Office Bldg.	CANCELED	Removed by BCC in 2001
Gandy Blvd. Causeway Enhancements	CANCELED	FDOT permit denied
102 nd Ave. from 137 th Street to Seminole Blvd.	CANCELED	Removed by BCC in 2008 after public opposition; resurfacing planned
22 nd Ave. S from 56 th Street South to 34 th Street South	DEFERRED	PO&E complete, deferred due to funding, safety improvements to be studied
Sunset Point Road from US19A to Keene Road	DEFERRED	PO&E complete, deferred due to funding, sidewalks being planned
Park/Starkey from Tyrone Blvd. to East Bay Drive	DEFERRED	Design complete for southern two sections; construction deferred due to funding, resurfacing planned for corridor
Brooker Creek Preserve Environmental Education Center Equestrian Riding Trail Facilities	CANCELED	Removed due to funding
Oakhurst/Indian Rocks Road Widening	CANCELED	Removed from MPO plan by MPO
		12

Note – The “Park/Starkey from Tyrone Blvd. to East Bay Drive” Program Funding Area consists of four separate projects – (1) Park St. Tyrone Blvd. to 84 Ln., (2) Starkey Rd. 84 Ln. to Bryan Dairy Rd., (3) Starkey Rd. Bryan Dairy Rd. to Ulmerton Rd. and (4) Starkey Rd. Ulmerton Rd. to East Bay Dr.

We included Project ID# 655 (PID 655), “Belcher Road from 54th Ave. North to 38th Ave. North,” as a deferred project in our analysis, not in progress as presented since construction was deferred. As of Fiscal Year 2011, these seven deferred projects had a total of \$14.6 million in expenditures as shown:

Project Name	Project ID#	Total Expenditures As of FY 2011
Belcher Rd. from 54 th Ave. N. to 38 th Ave. N.	655	951,650
22 Ave. S. from 58 St. S. to 34 St. S.	736	651,247
Sunset Point Rd. from US19A to Keene Rd.	920476	948,746
Park St. Tyrone Blvd. to 84 Ln.	864	2,549,762
Starkey Rd. 84 Ln. to Bryan Dairy Rd.	865	5,839,560
Starkey Rd. Bryan Dairy Rd. to Ulmerton Rd.	922252	2,885,948
Starkey Rd. Ulmerton Rd. to East Bay Dr.	870	807,850
Total Deferred Projects Expenditures		\$14,634,763

Insufficient information detailing the \$14.6 million already spent on the deferred projects was presented to the BCC. In order for the CIP financial information to be meaningful and the potential impact project deferral has on sunk costs (costs incurred in the past) determined, the

project expenditures should be broken down into three categories and presented to decision makers: 1) engineering costs; 2) land acquisition costs; and 3) construction costs. Category costs incurred can then be analyzed. For instance, engineering plans have a limited useful life dependent on the duration of deferral. Land acquired but not utilized has the inherent cost as a loss of revenue since County owned land is not subject to property tax. If construction was started and then stopped, unless the deferral is short term, the benefit of the money spent may be lost. The BCC needs to know what expenditures were already incurred and the impact when there is a decision to defer a project.

The deferral of projects also indicates that there is a problem with the budgeting process for committing Penny for Pinellas revenue. Prior to a road construction project being started and expenses incurred, adequate planning should take place. Projects should not be started if the funding is not reasonably assured. The revenue stream should be conservatively projected and the budget for the start of a project formally documented, supported by reasonable assumptions, and re-evaluated on a set schedule.

When a project is being deferred, the total impact on the project cost should be presented to the decision makers. The CIP budget process should reasonably assure that planned projects that are budgeted for and started have committed funding to complete the project. If the budget process is not able to meet this objective, action must be taken to correct the weaknesses in the process.

In addition, these seven road projects for the 2000-2010 extended Penny were presented to the public in the "New County Projects For The Extension Of The Penny For Pinellas 2000-2010" document as roadway construction projects that are "key projects targeted by Pinellas." The deferral of the projects presents a poor County image based on the inability of the County to deliver completed construction projects that were publicized as "key projects."

During the audit, Management had the opportunity to review these issues and provided the following additional information.

The funds expended on the noted road construction projects have provided a valuable engineering product that will allow future construction when funds become available. The engineering product consists of design plans and permits. Permits can be extended to a later time period that coincides with availability of construction funds. Designing the project provides the ability to derive an accurate estimate of construction costs and allows the project to move forward much more quickly when funds become available.

Capital budgeting can be challenging due to the complexities involved in implementing capital projects such as obtaining permits, right-of-way, unanticipated drainage issues, timing of contributions from other organizations/agencies, and availability of funding. Project funding may or may not be ultimately available depending on how projects end up being prioritized. The prioritization of projects is a policy decision by the BCC.

We noted a similar issue, County staff not indicating which projects were deferred in the CIP in our previous audit of the 1990-2000 Penny for Pinellas. While management is noting most deferred projects in the CIP Summary of Changes, we continue to stress the need for all the information related to the deferred projects be presented to the decision makers so a fully informed decision can be made. The BCC is ultimately responsible for expenditures lost on projects not completed.

We Recommended management review the budgeting procedures and internal controls for capital projects funded by the Penny for Pinellas. The budgeting process should include, but not be limited to:

- Required documentation for the initial project budget.
- A required reconciliation of significant changes for each project between the prior year budget and the current budget with changes documented in the CIP Summary of Changes.
- A requirement that budgeted projects not be started until reasonable assurance is obtained that adequate funding is available.
- When budgeted projects with expenditures are deferred, an analysis document be presented to decision makers that includes the risk related to sunk costs for the projects.

Status:

Partially Implemented. A CIP Action Team has been formed and tasked (in part) with developing CIP "end-to-end" procedures and implementing project management technology. Without the new budget procedures completed by the CIP Action Team, IG cannot determine the extent of improvement in the budget process. The CIP Summary of Changes is submitted each year during the budget process to document changes between the current ten-year plan and the requested ten-year plan. The CIP Summary of Changes includes all CIP projects. A CIP Status Report is compiled every two months and distributed to departments and County Administration, which allows for closer monitoring of projects. There is still risk that all information pertaining to deferred projects is not disclosed to decision makers.

3. CIP Expenditures Totaling \$2,155,302 Were Charged To The Incorrect Project Cost Center.

We analyzed the expenditures for 11 selected CIP projects funded by the Penny for Pinellas tax and found over \$2 million of expenditures charged to general ledger cost centers that did not relate to the current approved project or prior consolidated project descriptions as detailed below.

- A. \$2,041,360 of expenses were charged to the Countywide Building Program Project (PID 1263) that are not related to the scope of the project. The Countywide Building Program Project consists of three projects:

1. PID 575 Courthouse Curtain Walls
 - Description: "Curtain walls must be replaced in the main Clearwater County Courthouse because existing walls are 40 years old and are deteriorating."
2. PID 594 North County Service Center
 - Description: "Total renovation of NCSC due to age of facility."
3. PID 832 General Courtroom Renovations
 - Description: "Development of administrative, courtroom and courtroom support space with attendant increases in building support system capacity."

The description for the current Countywide Building Program Project is:

"Upgrade County Buildings in need of physical improvement. Priorities will be established for upgrade programs and scheduled accordingly."

The Courthouse Curtain Walls and North County Service Center projects are addressing issues that need correction in a limited time frame; therefore, according to the Countywide Building Program Project description should be given priority. However, the total expenses charged to the Countywide Building Program Project cost center for Fiscal Years 2006, 2007, and 2008 of \$2,041,360 did not relate to these priority projects as shown below:

Expenditure Description	Total Amount
PW Emergency Response Building (PID 1477)	1,796,929.54
Hydrant/Line Installation	36,568.17
K-9 Building Expense	173,080.08
Carlton Fields Legal Fees	19,401.86
Campus Master Plan Expense	15,314.00
Other	66.70
Total Expenditures	\$2,041,360.35
Total Expenditures Less PID 1477 Expenditures	\$244,430.81

As shown above, there was \$244,431 of expenses related to functions that were not approved as a project in the CIP by the BCC.

During the audit, Management had the opportunity to review these issues and provided the following explanation.

CIP funds were realigned to create the Countywide Building Program. The Countywide Building Program funds were undesignated funds; the source projects (PID 575, PID 594 and PID 832) were deferred. By virtue of the

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explanation of the funding realignment contained in the Summary of Changes to the Fiscal Year 2006–Fiscal Year 2011, in concert with adoption of the Annual Budget, the BCC did approve the expenditures from the Countywide Building Program.

Our review of available documentation; however, does not agree with management's explanation above. The project description was "Upgrade County Buildings in need of physical improvement. Priorities will be established for upgrades programs and scheduled accordingly." None of the expenditures charged to this project meets the description of the current project.

- B. \$1,796,929.54 of the \$2,041,360.35 of expenses charged to the Countywide Building Program Project detailed above were for the Public Works Emergency Response Building Project (PID 1477). This design/build project was performed under a single contractor; however, the expenditures were split between two projects, PID 1477 Emergency Response Building and PID 1263 Countywide Building Program.

The initial project design criteria completed on August 15, 2006 described the project as construction of a 60,000 to 70,000 multi-story building with an initial project estimate of \$33,850,000. There was no budget for the design and construction of the building in Fiscal Year 2008 when management decided to accelerate the project. Rather than establish a budget for the project, design costs were charged to another project with an existing budget. The size and cost of this project should have made it a distinct project from inception rather than approximately \$1.8 million of design costs being charged to a different project. Management agrees that funds from the Countywide Building Program were expended for Project No. 1477 in 2008 for the design/build services with Hennessey Construction.

- C. \$113,942.94 of the total of \$238,114.94 expenses charged to the Pinellas County Courtroom Granite Panel Project (PID 1395) do not relate to the scope of the project as shown below:

Fiscal Year 2006 General Ledger Description	Expenditures
Spray fire proofing on enclosed stairwell (PO 219064)	2,450.00
Demko Vending, Inc. (PO 218596)	98,812.60
Design remodel of coffee shop (PO 218472)	5,058.65
McCarthy and Assoc. professional engineering services (PO 221927)	5,925.00
Bank of America Credit Card	623.35
McKnight Testing	804.00
Pride Enterprises (PO 206229)	129.16
FedEx	114.55
US Courier	25.63

Fiscal Year 2006 General Ledger Description	Expenditures
Total Expenditures	\$113,942.94

The correct project expenses for Fiscal Year 2006 were \$124,172 for the contract with M. Garcia & Sons Inc. for granite panel remediation; including \$113,942.94 of unrelated project expenses as detailed above overstating the Fiscal Year 2006 expenditures by 48%.

Management investigation found that PID 1395 was not the only project with expenditures in cost center 8190100. That cost center also included charges from PID 1264, the Courthouse Coffee Shop Project. Therefore, the \$113,942 in expenditures is not related to PID 1395, but do relate to PID 1264.

Management confirmed there was no approved budget for PID 1395 included in the "Pinellas County Capital Improvement Program FY 2006 through FY 2011 Project Summary Report." The approved budget for PID 1395 in the "Pinellas County Capital Improvement Program FY 2007 through FY 2012 Project Summary Report" was \$136,110 for Fiscal Year 2007. Consequently, Fiscal Year 2006 expenditures required an increase to the working budget in the Oracle Purchasing System to support the purchase order issuance and an increase to the budget in the Clerk's Finance System to pay the resulting invoices. An administrative budget amendment was approved in June 2006, adding \$645,000 to the approved budget at the roll-up cost center level.

The recording of financial information and transactions must be accurately reported to ensure proper presentation of the Penny for Pinellas tax usage to the BCC and the residents of Pinellas County. Lack of adequate internal controls to prevent and detect the errors noted above resulted in Penny for Pinellas projects reporting incorrect expenditures.

We Recommended management:

- A. Determine where the breakdown in internal controls occurred that allowed the errors noted to occur. Correct the issues to ensure functioning controls are in place to prevent, detect, and correct these types of errors in the future.
- B. Develop guidelines on defining project scope, project phases, splitting projects, sub-projects, and grouping of projects so the CIP is more clear and easily understood. The definition and criteria for the capital improvement budget requests should address what constitutes a capital project.

Status:

- A. **Implemented.** The Oracle financial system provides for auto-accounting, meaning when a project is set up, the task structure determines the fund/center/program that will be used for budget and expenditures. A department requests a project set up and sends

it to OMB; OMB reviews for accuracy and forwards to Clerk Finance for review. Once Clerk Finance reviews and agrees, OMB sets up the project. Along with the new financial system, the capital cost center structure is now at function level; for example, transportation, physical environment, public safety, etc.

- B. Partially Implemented.** The definition and criteria for CIP projects are noted in the CIP document, budget instructions, and adopted budget document. As projects are implemented over a ten-year period, projects may need to be split into phases, sub-projects, etc. Each of these changes to the CIP budget are considered on a case-by-case basis as needed and reflected in the CIP Summary of Changes. In addition, a CIP Action Team has been formed and tasked (in part) with developing CIP "end-to-end" procedures and implementing project management technology. Without the new budget procedures completed by the CIP Action Team, IG cannot determine the extent of improvement in the guidelines defining project scope, project phases, splitting projects, sub-projects, and grouping of projects. OMB will be meeting with other municipalities to discuss what has worked for them and their lessons learned. There is still risk in planning and funding Penny for Pinellas capital projects; however, corrective action is in progress.

4. Penny For Pinellas 2000-2010 Expenditure Reporting Is Unclear.

Capital projects reported on the Office of Management and Budget (OMB) Penny for Pinellas webpage in the "First Penny for Pinellas Extension 2000-2010 Expenditures by Project" report lists the following 26 projects with expenditures totaling \$35.8 million. However, the "CIP Budget Project Summary Reports" lists these projects as being funded by the Tourist Development Tax, General Fund, and State Grants, not the Penny for Pinellas tax. The following is identified on the Penny for Pinellas webpage:

CIP Fiscal Years	Project ID #	Project Title	Total Expenditures	Funding Sources
2005-2010	922315	Airborne Laser Swath Mapping	295,333	Tourist Development Tax
	957	Coastal Research and Improvements	606,343	Tourist Development Tax
	922279	Honeymoon Island Improvements	2,281,434	Tourist Development Tax, State Grant
	166	Long Key, North Segment Beach	6,827,468	Tourist Development Tax, State Grant
	921055	Sand Key Beach Enhancement	14,727,729	Tourist Development Tax, State Grant
	167	Treasure Island Beach - Sunset Beach	2,371,627	Tourist Development Tax, State Grant
	956	Turtle Lighting & Monitoring	1,111,512	Tourist Development Tax, State Grant

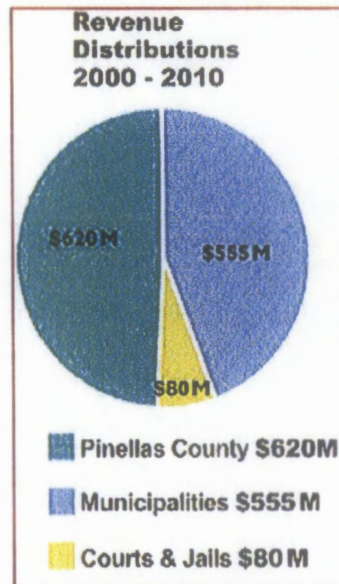
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CIP Fiscal Years	Project ID #	Project Title	Total Expenditures	Funding Sources
2006-2011	1195	Beach Lighting	226,445	Tourist Development Tax
	1292	315 Court-Caulk Exterior	1,159,133	General Fund
	1291	315 Court-Directory Replacements	68,510	General Fund
	1295	315 Parking Garage-Structural Repair	26,470	General Fund
	1290	324 S. Fort Harrison-Replace Windows	4,927	General Fund
	1293	400 S. Fort Harrison-Repaint Exterior	464,899	General Fund
	1294	501 Building Renovation	589,455	General Fund
	1297	S. County Svcs. Center-Roof Replacement	0	General Fund
	1296	S. County Svcs. Center-HVAC Replacement	734,113	General Fund
2007-2012	1460	Jail Campus Master Plan	1,092,397	Other
	1513	Ft. Desoto Beach Improvement	691,650	Tourist Development Tax
	1504	IT Equipment and Facility Upgrade	1,470,004	Other, General Fund
2008-2013	1489	315 Court Chiller Replacement	513,386	General Fund
2009-2014	1229	Madeira Beach Groin Replacement	149,902	Tourist Development Tax
	169	Pass-A-Grille Beach Nourishment	1,889	Tourist Development Tax, State Grant-DEP
2010-2015	2070	Long Key Upham Beach Nourishment 2009	1,250	Tourist Development Tax, State Grant-DEP
	2063	Sand Key Nourishment 2010	304,102	Tourist Development Tax, State Grant-DEP
	2068	Treasure Island Nourishment 2009	338	Tourist Development Tax, State Grant-DEP
	2072	Upham Beach Stabilization	79,257	Tourist Development Tax, State Grant-DEP
Total			\$35,799,573	

As a result, 4% of the \$876.4 million reported capital projects funded by the Penny for Pinellas tax may be incorrectly stated.

In addition, the OMB Penny for Pinellas webpage presents a pie chart showing the revenue distributions during 2000-2010 for Pinellas County as \$620 million.



However, the "First Penny for Pinellas Extension 2000-2010 Expenditures by Project" report states actual Penny expenditures of \$876 million, indicating that \$256 million of funding for the projects listed as funded by the Penny for Pinellas tax actually were funded from other sources.

Another example of the unclear information presented on the "First Penny for Pinellas Extension 2000-2010 Expenditures by Project" report was found during our review of individual capital projects. The expenditures listed on the report for the Pinellas County Courtroom Granite Panel Project (PID 1395) lists Fiscal Year 2007 actual total expenditures of \$601,411. However, the report does not account for \$124,172 for two Fiscal Year 2006 invoices. The correct total expenditures for the project amounted to \$725,583.

The recording of financial information and transactions must be accurately reported to ensure proper presentation of the Penny for Pinellas tax usage to the BCC and the residents of Pinellas County. A report with a title description of "First Penny for Pinellas Extension 2000-2010 Expenditures by Project" should only include projects that were funded by the Penny for Pinellas tax revenue. Including expenses financed by other funding sources into Penny for Pinellas reports misinforms readers.

During the audit, Management had an opportunity to review this issue and provided the following additional information.

The Penny for Pinellas website now includes all capital projects completed in the Capital Projects Fund from 1990 to 2010. The majority of these projects have been funded in-whole or in-part by the Penny for Pinellas. A clarifying statement to this effect was added on the "Expenditures by Classification" page and on the bottom of the individual expenditure detail pages.

We appreciate management including a statement on the "First Penny for Pinellas Extension 2000-2010 Expenditures by Project" report that expenditures include funding from the Penny for Pinellas and other revenues. However, implementing our recommendation will provide greater clarity as to what portion of projects were funded with Penny for Pinellas tax revenue versus other sources.

We Recommended management adjust the "First Penny for Pinellas Extension 2000-2010 Expenditures by Project" report to accurately report projects funded by the Penny for Pinellas tax revenue or clearly state that projects listed include expenditures paid by other funding sources. Adding a column to the report marking which projects were fully or in part funded by Penny for Pinellas would help clearly show users Penny for Pinellas projects vs. CIP projects funded by other means.

Status:

Implemented. The expenditure reports posted on the OMB Penny for Pinellas website state, "Expenditures include both Penny and non-Penny expenditures. Penny for Pinellas is the primary source of funding for governmental projects. Other revenues include grants, reimbursements, transportation impact fees, tourist development taxes, etc." In the new Oracle Projects Accounting system, project funding can be tracked.

5. Available Documentation On Four Projects Does Not Support The Use Of \$4,969,072 In Penny For Pinellas Revenue Funds.

Four CIP projects that did not have documentation showing they qualify to be Penny for Pinellas projects were funded with \$4,969,072 of Penny revenue during the first extension period of 2000-2010. In our opinion, these four projects were not qualified for Penny for Pinellas funding because their expenditures did not generate capital fixed assets in general, and/or the expenditures did not meet the specific legal criteria related to using Penny for Pinellas funds. The four projects were:

1. PID 725 Enterprise Computer Upgrade - \$2,406,549
 - Project Description: "Multi-year project to upgrade, enhance, and consolidate LAN/WAN file servers, provide computing platform for the countywide E-Government initiative and further implement Massive Parallel Processing (MPP)."
 - We found no additional information on the project scope or information pertaining to the MPP document. The 2009 IT Strategic Plan, under E-Government, refers to "allowing internal and external customers to help themselves to County services. Self-service web-based portals and new, expanded data access methods will allow anyone requesting service or information new ways to access those services." The majority of the equipment purchased does not support this objective.

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- The transaction information for the project indicates that purchasing of equipment was not one multi-year project. The transactions relate to 108 purchase orders (POs) that took place over eight years. The equipment purchases relate more to operational functions rather than to a defined capital project.
- Our analysis of the PO information shows issues with the transactions subsistence and how the type of equipment purchases fits into the project description as shown below.

Issue	Issue Description	# of POs
Issue #1	The purchases relate to a lease purchase; total amount \$413,000.	3
Issue #2	The PO descriptions referred to the purchase of equipment, but states the items include maintenance and/or software.	2
Issue #3	The PO descriptions are not sufficient to determine what was purchased and if the items would be considered capital items.	29
Issue #4	The POs state the items are printers.	6
Issue #5	The PO descriptions indicate the purchases are not capital items.	3
Issue #6	There were no PO descriptions indicated for the items.	17
Issue #7	The items purchased are equipment.	48

2. PID 921773 Permit Monitoring / Testing Services - \$1,624,627

- Project Description: "Funding for multiyear monitoring and maintenance contractual obligations for various projects to meet permit conditions required by the environmental permitting agencies such as SWFWMD, DEP, and Corps of Engineers."

3. PID 1145 Signal System Consultant Services - \$590,017

- Project Description: "Consultant services for routine evaluation and development of timing plans for the computerized signal system."

4. PID 659 Brooker Creek Hydro Habitat Impact Study - \$347,879

- Project Description: "The County, in partnership with the Southwest Florida Water Management District, is undertaking a comprehensive, integrated hydrology model of the entire Brooker Creek Watershed. This will provide a methodology to evaluate hydrologic restoration projects for prioritization, flood control, stormwater treatment and storage, and ecological function. SWFWMD is the lead on the project. The County will reimburse them for 50% of the project total."

We question whether these project expenditures of almost \$5 million have been improperly classified and reported as capital fixed assets versus ordinary operating expenses. Inadequate distribution of guidelines to project originators describing Penny for Pinellas funding eligibility criteria, as well as inadequate monitoring of new or revised projects, has resulted in these projects not qualifying.

As stated on the OMB website, Capital Improvement Program Fiscal Year 2009 Budgetary Definition and Criteria:

"The following definition and criteria shall be utilized in determining the appropriateness of capital improvement budget requests: Capital projects are defined as activities that lead to the acquisition, construction, or extension of the useful life of capital assets. Capital assets include things such as land, buildings, parks, streets, utilities, and other items of value from which the community derives benefit for a minimum number of years.

1. All projects in the Capital Budget must have a total cost greater than \$50,000 and a useful life of more than five years.
2. Capital projects are considered to be one-time outlays, which are non-recurring in nature. Purchases involving ongoing debt service or lease/purchase costs are typically not budgeted in the Capital Budget.
3. Capital projects must add to, enhance the value of, or extend the life of the County's physical assets. Major equipment purchases must be associated with a capital project and must meet the definition of a capital item in order to be placed in the Capital Budget."

We used Florida Attorney General Opinion No. AGO 2003–17 to determine the Enterprise Computer Upgrade Project's eligibility to be funded by the Penny for Pinellas. Although the Opinion states that the purchase of computer equipment that has a life greater than five years would qualify, it also states:

"Neither the development of software for use in a computer system nor the plan for configuration of particular component parts of such a system would appear to qualify as infrastructure within the definition of the term in section 212.055... Payment for the development of a computer system would appear to be in the nature of payment for operational expenses prohibited by this provision."

During the audit, Management had an opportunity to review these issues and provided the following additional information:

1. *PID 725 - Computer hardware is commonly capitalized as it meets the criteria for a capital project; one-time outlay, useful life of more than five years, and total cost greater than \$50K.*
2. *PID 921733 - This program is used for road projects that have been completed and closed out, but still have permit monitoring/testing taking place. The reason that this program is in place is so that completed road projects do not have to remain open for years after they have been completed.*
3. *PID 1145 - This program provides key information that helps prioritize and develop intersection improvement projects in the CIP such as additional turning lanes, traffic signal reconfiguration, etc.*

4. *PID 659 – The Department of Environmental Management (DEM) was the liaison for this project; however, it was a Southwest Florida Water Management District (SWFWMD) project. This means that SWFWMD was the lead on the project and the County budgeted 50% for our portion. SWFWMD hired the consultant, managed the work, and invoiced the County for our portion. The liaison for the project changed several times.*

As for PID 659 not qualifying as a Penny project, per the definition, projects can include “activities that lead to the acquisition, construction, or extension of the useful life of capital assets. Capital assets include things such as... and other items of value from which the community derives benefit for...” This would include the hydrologic model of the Brooker Creek Watershed that would lead to flood control and storm water treatment projects.

In the Exit Conference, management stated that for projects in bullets 2, 3 and 4 above, the costs are directly related to front-end and/or back-end costs for capital projects, thus the projects qualified for Penny funding. Our analysis of the additional information, supplied by management, related to the issue is stated below:

Item #2 (PID 921773) Permits Monitoring/Testing Services – This project has expenditures each year starting in 2000 through 2010. The project description indicates the expenditures cover monitoring and maintenance for many different projects over a ten year time frame. Management supplied two examples of a permit process for the Southwest Florida Water Management District related to the East-West Connection Road Phase 1 Project (PID 921563). The Permits Monitoring/Testing Services Project itself is not a one-time outlay of a non-recurring nature; therefore, does not meet part of the OMB capital project criteria. However, not considering the permit and testing expenditures for a capital project as part of the overall project cost is improper accounting. In addition, leaving the related capital project open for all these additional expenditures is not reasonable. Based on the additional information supplied by management, it is IG’s opinion that even though the Permits Monitoring/Testing Services Project does not meet part of OMB’s criteria alone for Penny funding, this is the best process for handling the permit and testing expenditures that extend past the normal closing of a project as long as each expenditure is related to a specific capital project.

Using a capital project to pay for costs that are not exclusively related to a specific capital project presents a significant risk that costs for non-capital projects will also be included. A strong system of internal controls and supporting documentation is needed to match each expenditure with a capital project over the ten-year period for several hundred projects. Separating out common expenditures from projects runs counter to the concept of accumulating costs by project. Also, allowing for cross-charging expenditures seems to create unnecessary complexity and dilutes accountability for monitoring costs. IG will review this area of risk when the Follow-Up Audit is conducted on this review.

Item #3 (PID 1145) Signal System Consulting Services – This project is for developing a plan for a computerized signal system and not directly related to the upfront planning of a capital project. Having an analysis performed on the computerized signal systems is good management planning for future projects. However, it is IG's opinion that these planning expenses should not be a Penny funded capital project. To date, management has not planned a project in this area that was generated by this analysis.

Item #4 (PID 659) Brooker Creek Hydro Habitat Impact Study – Management stated, "The project and resulting report were essentially the planning and feasibility study for constructing and implementing subsequent capital improvement projects in the watershed, including the Tarpon Woods flooding prevention projects." The Brooker Creek Watershed Alternative BMP Analysis prepared by the Southwest Florida Water Management District dated May 25, 2010 is an extensive analysis for a multi-alternative project related to the Brooker Creek Watershed area. The report is not the planning of an individual capital project; therefore, does not comply with the OMB criteria of, "One-time outlays, which are non-recurring in nature" and "enhance the value of, or extend the life of the Counties' physical assets." In IG's opinion, the general planning of possible capital projects is not a capital expenditure any more than developing the overall Pinellas County Plan for the First Penny for Pinellas Extension 2000-2010 was. Expenditures for studies, models, master plans, and management plans are costs related to general planning, identifying, and prioritizing projects, but are not a specific cost of a project. Management is opting to pay for, rather than develop, plans to build capital projects. The Penny for Pinellas infrastructure tax was intended to actually build capital projects, not just plan to build.

Based on the additional information management supplied, we still question whether the projects qualify for Penny for Pinellas funding.

We Recommended management:

- A. Request a legal review of the noted projects for qualification to be funded by Penny for Pinellas. For PID 725, this review has to be done at the transaction level.
- B. Put into place internal controls that ensure projects submitted by departments and the expenses processed for the projects qualify as fixed capital assets and/or Penny for Pinellas funding.
- C. Reimburse the Penny for Pinellas fund for any project costs determined by the legal review as not qualified for Penny funding.

Status:

- A. **Not Implemented.** Staff still does not agree with the recommendation and feels that the projects referenced are clearly qualified to be funded by Penny for Pinellas. However, OMB stated they would be requesting a meeting with the Inspector General for their

assistance in redefining the capital projects criteria. The risk is still present that unqualified projects are being funded by Penny for Pinellas.

- B. **Implemented.** The CIP Budget instructions include emphasis on the importance of determining authorized uses of the Penny. The Oracle financial system provides for auto-accounting, meaning when a project is set up, the task structure determines the fund/center/program that will be used for budget and expenditures. A department requests a project set up and sends it to OMB; OMB reviews for accuracy and forwards to Clerk Finance for review. If a project is not clearly defined as qualifying for Penny funding, OMB contacts the County Attorney's Office for a determination. Once Clerk Finance reviews and agrees, OMB sets up the project. Along with the new financial system, the capital cost center structure is now at function level; for example, transportation, physical environment, public safety, etc. In addition, the Department of Environment and Infrastructure and CIP Finance section will be merging into OMB under a capital budget manager allowing for closer monitoring of the capital fund. Departments are also encouraged to take advantage of the CIP Action Team as a forum to discuss concerns.
- C. **Not Implemented.** As stated in "A" above, staff feels that the projects referenced are qualified to be funded by Penny for Pinellas so no reimbursements have been made. However, OMB stated that if any Penny project expenditures are ever determined to not be qualified for Penny funding, the equivalent amount would be reimbursed accordingly. The risk is still present that Penny for Pinellas is funding unqualified projects.

6. *\$541,030.66 Of Penny For Pinellas Funds Was Used To Front The Balance Of The Cost Of A Transportation Impact Fee Funded Project.*



The Pinellas Trail Extension Project (PID 1288) was partially financed with Penny for Pinellas funds even though the BCC made a decision to allocate Transportation Impact Fees (TIF) to finance the entire project. The Interlocal Agreement signed with the City of St. Petersburg clearly stated:

"The Pinellas County Board of County Commissioners authorized funding from the Transportation Impact Fees from District 11 for the design and construction of the Project on January 22, 2008."

The Interlocal Agreement total budget for the project was \$3.5 million and TIF was designated as the sole funding source. However, \$541,030.66 was noted on the invoice as posting to the Penny for Pinellas fund. This change in funding was not approved by the BCC.

Management did not follow the BCC decision and the provisions of the Interlocal Agreement regarding the source of funding for the project. As a result, the first invoice for the project totaling \$541,030.66 was paid from Penny for Pinellas funds. Public Works management does not have any documentation authorizing use of Penny for Pinellas funds for this project.

During the audit, Management had an opportunity to review this issue and provided the following additional information.

The funding for this project did come from Transportation Impact Fees. In order to fully fund the project at the time, Penny funds were used to front the balance of the cost of the project that could not be covered by TIF fees at the time. In subsequent years, TIF funds were accrued and transferred to the Capital Projects Fund to reimburse the Penny funds. Current TIF fee revenue can be applied to prior year expenditures.

If the project could not be fully funded by TIF revenue, the BCC should have been informed of this issue. The BCC stipulated that the project would be funded by TIF, not "fronted" Penny revenue. We were able to confirm management's statement that the \$541,000 was repaid to the Penny fund.

We Recommended internal controls be put into place to prevent reoccurrence.

Status:

Not Implemented. Staff still does not agree with the recommendation and stated that it is not uncommon or incorrect for project costs to be "fronted" by Penny for Pinellas revenue and reimbursed after the fact. The risk is still present that Penny for Pinellas funds can be used without authorization. However, OMB management stated that they would develop procedures.

7. Internal Capitalized Billings Should Be Captured At The Project Level, Not The Functional Level To Increase Transparency.

The allocated capitalized billing expense of \$99.6 million for the 2000-2010 timeframe was not clearly presented in the capital project budgets. Capitalized billings are a significant accounting policy that is not defined or explained in the Capital Improvement Program.

Capitalized billings (terminology specific to Pinellas County) represent recovery of costs incurred by other governmental departments/funds regarding internal planning/oversight of capital projects. Capitalized billing is allocated annually; however, it is not broken down by specific projects. Thus, capitalizing billing costs displaces funding for some planned projects, if the costs are not budgeted.

The CIP projects for the 2000-2010 Extended Penny for Pinellas were reviewed by the BCC at work sessions on February 12, 2001 and March 26, 2001. The work sessions included a presentation entitled, "A Progressive Plan for the Next 10 Years Extended Penny for Pinellas 2000-2010" (Plan). The Plan included a listing of all CIP projects for the next 10 years as "Government Capital Improvement Program Fiscal Year 2001-2010 Summary Revised 3/12/01" for a total cost of \$809,909,910 for the projects. None of the projections clearly stated capitalized billing costs.

OMB Management stated that the capitalized billing costs are included in the individual capital projects budgets produced by the departments, but no separate line item in the CIP Budget Project Summary Reports is presented. In our review of the CIP project budgets and budget process covered in Opportunity for Improvement No. 1, there was no notation or reference to capitalized billing costs in the project budget documentation. The procedure to allocate the capitalized billing costs to projects is an annual process performed by the Clerk's Finance department based on a cost summary by Activity produced by OMB. The allocation is posted to the Capital Fund at the Activity level (see chart below for breakdown of Activities). The procedure allocates the percentage to each Activity based on the amount of expenditures for the individual capital projects in the Activity category for that year.

With the current capitalized billing procedure, there is no meaningful financial information to relate the costs to individual capital projects. In addition, the amount of expenditures for an individual capital project does not adequately relate to the amount of internal planning/oversight performed for the capital project. There is no supporting documentation that the departments are taking into account capitalized billing costs per project in forecasting the remaining project budget.

Based on our analysis of the capitalized billing process, the annual allocated costs are not being included in the project budget. Therefore, each year the available funding for capital projects is reduced by that year's capitalized billing costs that were not included in the original 10 year Plan.

Status of Recommendations

Follow – Up Audit of 2000-2010 Penny For Pinellas Sales Tax Distribution And Expenditures

Capitalized billings represent a significant cost to the CIP. At the end of the 2000-2010 Extended Penny for Pinellas timeframe, capitalized billings represented a \$99.6 million additional cost to the \$810 million of planned projects for the Fiscal Year 2000-2010 CIP (a 12.3% reduction in available funding):

Activity	Capitalized Billings Total
Judicial	\$1,253,024
Detention & Corrections	\$2,376,368
General Government	\$2,345,851
Law Enforcement	\$752,962
Fire Control	\$249,155
Medical Examiner	\$1,239,262
Other Public Safety	\$709,136
Human Services	\$81,725
Coastal Management	\$1,127,461
Environmental Management	\$1,715,108
Surface Water Management	\$18,507,786
Roads & Streets	\$55,513,339
Water Transportation	\$64,864
Other Transportation	\$10,830
Parks & Recreation	\$13,699,664
Total Capitalized Billings	\$99,646,535

Without including the capitalized billing cost in the ten year CIP plan, some projects that were planned were unable to be funded since the available revenue was reduced by each year's capitalized billing expense.

We noted this same issue in our previous audit of the 1990-2000 Penny for Pinellas. For future CIP planning, the impact of capitalized billings should be presented by management to the BCC. The direct cost of capitalized billings should be included in project cost projections so that the annual funding requirements are accurate and capitalized billings do not result in a reduction of the planned projects.

During the audit, Management had an opportunity to review this issue and provided the following additional information.

Any costs related to implementing a capital project can be capitalized. To date, capitalized billings have been reflected at the function level of the CIP because the necessary systems were not in place to charge each project directly. Capitalized

billings are disclosed by their inclusion in the CIP as non-project costs. In any given year, the County has the discretion to charge or not charge relevant capitalized costs. In the 2010-2020 Penny Program, the impact of capitalized billings was addressed in the unallocated reserve amount of 6.2% or \$56M. Starting in Fiscal Year 2012, capitalized billings costs will be directly charged to each project due to the implementation of the new Oracle Project Unified Solution project.

We Recommended management:

- A. Define and explain capitalized billings in the CIP documentation. In addition, disclose the effect of capitalized billing costs on CIP funding to the BCC and the public on the OMB webpage.
- B. Include capitalized billings as a cost category in the 2011-2020 CIP so future projects do not have to be cancelled or deferred to cover the unbudgeted capitalized billing costs.

Status:

- A & B. **No longer applicable.** With the implementation of Oracle Projects Accounting in October 2011, labor is directly charged to the project. These costs are included when requesting the project budget as well.

8. Grant Funding For The Brooker Creek Preserve Interpretive Signs Project Was Not Properly Reported.

Two issues were noted during our review regarding grant funding for the Brooker Creek Interpretive Preserve Signs Project (PID 1067).

- A. Time delays in the Brooker Creek Interpretive Signs Preserve Project caused the County to lose the initial grant funding provided by Southwest Florida Water Management District (SWFWMD) in the amount of \$22,880. The grant funding was awarded from SWFWMD on April 3, 2003 for the development, construction, and installation of eight environmental education signs within the Brooker Creek Preserve. The initial project due date for the SWFWMD grant funding was March 31, 2004. Several change orders were processed extending the grant funding with the last extension granted having a project due date of September 30, 2005. Time extension request documentation for the funding noted the following reasons for project delays:
 - 1. It was originally planned that interpretive signage would be developed by the exhibit firm Academy Studios, in tandem with exhibits, but this was not possible.
 - 2. Loss of Brooker Creek Preserve staff.
 - 3. The process of developing exhibits was delayed until January 2005 demanding time and resources from staff for longer than could originally be anticipated.

The County requested the project due date of September 30, 2005 be extended, but SWFWMD denied the request on July 15, 2005 citing that the project had already been extended several times and was in its third year of existence. SWFWMD suggested the County come back in October 2005 and request new funding.

The County did not contract with a vendor for the Brooker Creek sign making services until October 24, 2005, which was after the time extension was granted with a project due date of September 30, 2005. In addition, the project did not appear in the CIP until Fiscal Year 2005 even though the project grant funding was awarded by SWFWMD on April 3, 2003. Losing the initial grant funding of \$22,880 represented approximately 21% of the original project budget of \$107,000. Delays caused the project to extend from initially a one year project to a four year project. The time and staff resources needed to draft several time extension request letters and to reapply for grant funding cost the County. Priority should be given to projects with strict time constraints if funding is in jeopardy.

The County did reapply for and was awarded grant funding for the project; however, these funding resources did not appear in the resource section of the CIP as discussed below.

- B. Grant funding in the amount of \$42,400 was awarded in January 2005 from the National Fish and Wildlife Foundation (through the Pinellas County Environmental Fund - PCEF) and received in February 2006. However, the Fiscal Year 2006 CIP only shows \$32,400 of PCEF grant funding as a resource.

Grant funding in the amount of \$30,000 was awarded in August 2006 from SWFWMD. The amount of \$24,500 was received and posted to the general ledger on June 12, 2007. The Fiscal Years 2006 and 2007 CIP do not list the SWFWMD grant as a source of funding even though the SWFWMD grant was awarded in Fiscal Year 2006 and partially received in Fiscal Year 2007. The remaining \$5,500 SWFWMD grant funding was received and posted to the general ledger on July 24, 2009. The Brooker Creek Interpretive Signs Project did not appear in the Fiscal Year 2008 CIP, and the Fiscal Year 2009 CIP does not list the SWFWMD grant as a source of funding.

One of the objectives stated in the CIP document is:

"To improve financial planning by comparing needs with resources, estimating future bonding needs, and identifying fiscal implications."

One of the goals of the County in developing its annual capital budget and associated CIP is:

"Develop a realistic funding scenario for the CIP that identifies resources on a project specific basis."

Missing funding resources in the CIP document underestimates the amount of funding available for the project, which may mislead users of the document. Accurate information is necessary for users of the CIP to make informed decisions. Funding resources, which are revenue sources, shown in the CIP document used to support the project's implementation should be accurately reflected.

Brooker Creek Interpretive Signs



We Recommended:

- A. Grant funding not be requested for projects until the project is adequately planned and budgeted for.
- B. Priority be given to projects with strict time constraints to mitigate possible loss of funding.
- C. All funding resources secured or reasonably known to be available to support a capital improvement project implementation be listed in the CIP document.

Status:

- A. **Not Implemented.** Staff still does not agree with the recommendation and stated that the project was planned, and grants need to be requested during the time the specific agency's grant application process is available. The risk is still present that grant funding may be lost.
- B. **Implemented.** Grants are now tracked in Oracle Projects Accounting. It is anticipated that this central monitoring of grants will help preclude the loss of funding.
- C. **Implemented.** The Oracle financial system associates revenue sources with each project's actual expenditure. The CIP budget instructions give detailed directions on entering budget submissions into Oracle Projects Accounting. Expenditures are entered at the lowest task level of the project, which identifies funding source.

9. One Bill Of Sale For Art In Public Places Project Is Not In The Possession Of The County.

The Art in Public Places Project files did not contain one "bill of sale" document required to be received and retained prior to final payment being made. According to the County Purchasing Code, all professional services require a contract. The contract for the Art in Public Places projects contains a clause stating:

"Upon final acceptance, the Artist shall deliver to the County a bill of sale or other documentation transferring title to the Work acceptable to the County."

The bill of sale must accompany the art project to ensure the transfer of the ownership from the artist to the County. The bill of sale is one of the conditions the artist must fulfill in order to receive the final payment.

While reviewing the Art in Public Places project, we examined documentation supporting expenditures of the Penny for Pinellas revenue. We could not locate, nor could management provide the bill of sale documentation for the following Art in Public Places project expenditures:



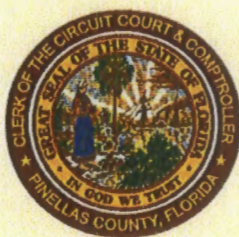
Sculptures for Boca Ciega Millenium Park:

Without the bill of sale, there is no documentation that the works of art was conveyed to Pinellas County free and clear of all liens, claims, and encumbrances.

We Recommend Management locate the missing bill of sale and maintain all relevant supporting documentation for the project in a designated file.

Status:

No longer applicable. The project was part of the Fiscal Year 2006 Public Art and Design Plan (Plan) approved by the Board of County Commissioners on November 15, 2005. A total allocation of \$75,000 was designated for the "Artist in Resident" component of the Plan. This component consisted of up to three individual residencies. Final Payment (April 10, 2008) was issued upon completion of the activities. On March 6, 2013, Leslie Fry, the artist, confirmed that no "Bill of Sale" was issued because the project was completed through an Agreement between Pinellas County and the Pinellas County Cultural Affairs Department, executed February 12, 2007.



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