



**Internal Audit Committee of
Brevard County, Florida
Internal Audit Review of**

Local Option Gas Tax (LOGT)

- Transportation Engineering (TE)
- Road and Bridge (R&B)
- Metropolitan Planning Organization
(MPO)/Transportation Planning
Office (TPO)
- Space Coast Area Transit (SCAT)

**Prepared By:
Internal Auditors of Brevard County
April 4, 2007**

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April 4, 2007

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Pursuant to the provisions of Section 125.01(1)(s), Florida Statutes, and the approved 2005/2006 internal audit plan, we hereby submit our internal audit report covering the Local Option Gas Tax (LOGT). We will be presenting this report to the Audit Committee at the next scheduled meeting on May 4, 2007.

Our report is organized in the following sections:

| | |
|---------------------------------------|---|
| Background | This provides an overview of the LOGT. |
| Objectives and Approach | The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach. |
| Issues and Recommended Actions | This section gives a description of the issues, the impact and recommended action. Management's response has been incorporated into this section as well. |

We would like to thank the Transportation, Finance, Space Coast Area Transit, Transportation Planning Organization/Metropolitan Planning Organization and the Road and Bridge departments and all those involved in assisting the Internal Auditors regarding this report on the LOGT. We found the LOGT staff to be very professional and cooperative during the audit.

Respectfully Submitted,

INTERNAL AUDITORS

Background

Background

Overview

Florida Statute section 336.025 sets forth the types of expenditures for which gas tax monies may be utilized as follows:

Section 336.025(1)(b)(3) states, “County and municipal governments shall use moneys received pursuant to this paragraph for transportation expenditures needed to meet the requirements of the capital improvements element of an adopted comprehensive plan or for expenditures needed to meet immediate local transportation problems and for other transportation-related expenditures that are critical for building comprehensive roadway networks by local governments. For purposes of this paragraph, expenditures for the construction of new roads, the reconstruction or resurfacing of existing paved roads, or the paving of existing graded roads shall be deemed to increase capacity and such projects shall be included in the capital improvements element of an adopted comprehensive plan. Expenditures for purposes of this paragraph shall not include routine maintenance of roads.”

Section 336.025(7) “For the purposes of this section, "transportation expenditures" means expenditures by the local government from local or state shared revenue sources, excluding expenditures of bond proceeds, for the following programs:

- (a) Public transportation operations and maintenance.
- (b) Roadway and right-of-way maintenance and equipment and structures used primarily for the storage and maintenance of such equipment.
- (c) Roadway and right-of-way drainage.
- (d) Street lighting.
- (e) Traffic signs, traffic engineering, signalization, and pavement markings.
- (f) Bridge maintenance and operation.
- (g) Debt service and current expenditures for transportation capital projects in the foregoing program areas, including construction or reconstruction of roads and sidewalks.”

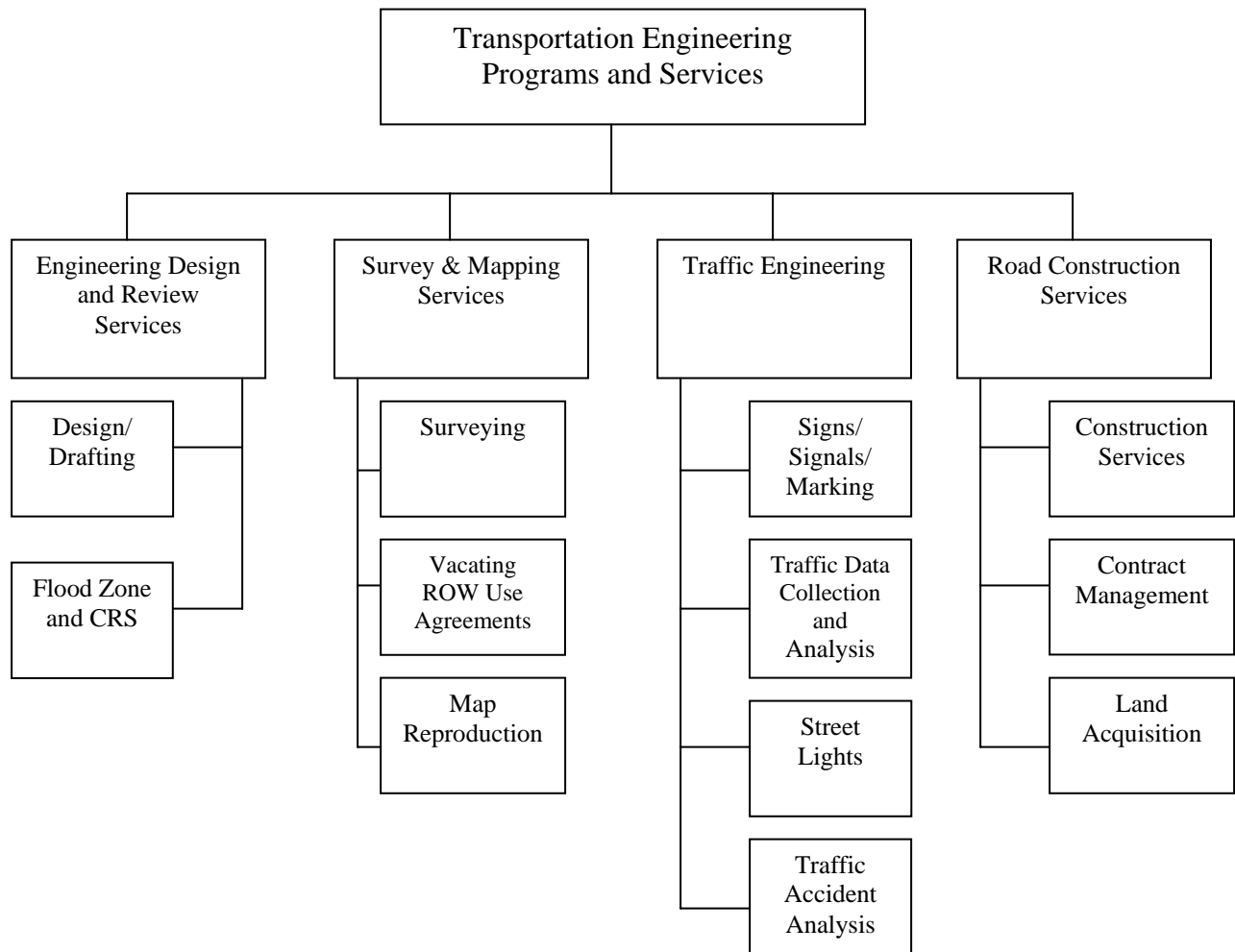
Road and Bridge (R&B)

The Road and Bridge (R&B) department is responsible for maintenance of the roadways. Florida Statute 336.025(7)(b) allows for the use of LOGT funds for roadway and right-of-way maintenance and equipment and structures used primarily for the storage and maintenance of such equipment. R&B receives revenue from the community service taxes, charges for services and local option gas taxes (LOGT). The County Finance department performs a quarterly transfer of LOGT funds to R&B. The monies are used to support personnel salaries and maintenance costs. The Transportation Engineering (TE) department is responsible for capital projects for building roadways. Florida Statute 336.025(7)(g) allows for the use of LOGT funds for debt service and current expenditures for transportation and capital projects in the foregoing program areas, including construction or reconstruction of roads and sidewalks. Beginning in FY 06/07 the Road & Bridge department no longer receives LOGT funding.

Background - continued

Transportation Engineering (TE)

The Transportation Engineering (TE) department is responsible for capital projects for building roadways. Florida Statute 336.025(7)(g) allows for the use of LOGT funds for debt service of capital projects and current expenditures for transportation and capital projects in the foregoing program areas, including construction or reconstruction of roads and sidewalks. The TE department consists of the following areas: Engineering Design and Review services; Survey and Mapping services; Traffic Engineering; and Road Construction services.



As discussed with the TE personnel, the Engineering Design and Review areas are not eligible for LOGT funds. In addition, only the Surveying area of Survey & Mapping Services is eligible for LOGT funds. Survey and Mapping services receives a transfer of funds from LOGT to support their budget. Traffic Engineering also receives a transfer of LOGT funds to support its budget. However, beginning in FY 06/07 Traffic Engineering no longer receives LOGT funds. Road Construction Services are supported 100% by LOGT funds.

Background - continued

Metropolitan Planning Organization (MPO)/Transportation Planning Office (TPO)

The MPO is mandated by FS 339.175 and is not under the Brevard County Commission. The TPO is a County agency under the Commission. MPO is funded with federal and state monies. The County is responsible for providing office space. To receive state and federal funding for its state and federal roads (e.g. 528, US1, I-95, Palm Bay Road, etc.) a County must have an MPO office. The MPO has a 19 member board of directors (the maximum amount allowed by statute), 5 seats on the board are occupied by the County Commissioners.

Annually, the MPO accumulates project lists from the various municipalities, reviews and prioritizes them. The list is then submitted to the State for review and to implement in their 5 year work program, if deemed appropriate.

The MPO operates from two main grants and various other small grants:

- 1) Public Law (PL) grant which has a small match requirement. MPO personnel state that gas tax monies would be used as a match for this grant only if purchasing capital assets for the department.
- 2) Federal Transit Administration (FTA) grant is an 80/10/10 match grant. A 10% match is required from the state and 10% from the County. This is the grant that the LOGT monies are used as matching funds.

The TPO office receives revenues in the form of concurrency review fees. These are fees paid by persons seeking building permits and are included in the building permit fee. The TPO performs a concurrency review of the property and surrounding areas (e.g. building permit for a development) to ensure there are enough parks and the roads can handle the traffic load.

Although the MPO and TPO offices have different functions they share the same personnel and office space.

Space Coast Area Transit (SCAT)

The Space Coast Area Transit (SCAT) provides bus service and special transportation for disabled individuals in Brevard County. Florida Statute 336.025(7)(a) allows for the use of LOGT funds for public transportation operations and maintenance. These services are funded in a small part by revenues and mainly through grants and grant matching. The gas taxes are used as part of the local matching funds for the Board Sponsored Ridership program, the Board Sponsored Transportation Disadvantaged Program and the FDOT Block Grant.

Finance

The finance department is responsible for tracking the gas tax revenue, ensuring amounts received are appropriate, disbursement of funds to the departments and review of invoice expenditures to ensure monies are spent for the intended purpose allowed by statute.

Background - continued

Selected Statistics

A reconciliation of gas tax revenues and expenditures for the last two years, is as follows:

| | <u>FY 05/06</u> | <u>FY 04/05</u> |
|-------------------------------------|------------------|------------------|
| Revenues | \$ 7,540,590 | \$ 7,795,768 |
| 9th cent gas tax | 427,917 | 419,376 |
| Interest earned | 91,143 | 27,862 |
| Sale of surplus equipment | 1,913 | 2,503 |
| Govt Agency charges | 7,633 | 12,726 |
| Certification/copy charges | 316 | 480 |
| Balance forward | <u>914,624</u> | <u>1,574,140</u> |
| Total revenues | <u>8,984,136</u> | <u>9,832,855</u> |
| | | |
| Road & Bridge | 1,551,423 | 3,661,423 |
| Survey & Traffic (TE) | 702,817 | 758,767 |
| Land Acquisition (TE) | 348,751 | 286,482 |
| Internal Distribution (TE) | 2,738 | 251 |
| Contract Administration (TE) | 278,087 | 250,340 |
| Construction Mgmt (TE) | 739,161 | 623,263 |
| SCAT (1) | 710,424 | 719,352 |
| SCAT (2) | 125,000 | 116,072 |
| SCAT (3) | 27 | 667 |
| MPO (FTA) | 13,557 | 15,587 |
| MPO (TPO) | 44,714 | 41,083 |
| Debt Service | 3,609,904 | 1,500,000 |
| Reserves | 857,533 | 1,806,039 |
| Railroad Crossings | <u>-</u> | <u>53,529</u> |
| Total transfers/expenditures | <u>8,984,136</u> | <u>9,832,855</u> |
| (Over) Under expended | <u>-</u> | <u>-</u> |

Source: SAP General ledger reports.

Objectives and Approach

Objectives and Approach

Objectives

For each department that receives gas tax funds, which included, SCAT, Road & Bridge, Transportation Engineering, and TPO, the following internal audit objectives were tested:

| |
|---|
| <input type="checkbox"/> Determine that controls are in place to ensure compliance with applicable Florida Statutes and the applicable Board of County Commissioners' policies, procedures, resolutions, ordinances and agreements, specifically that gas tax monies are used for appropriate expenditures. |
| <input type="checkbox"/> Determine that the Finance department and other affected departments have an effective system of controls in place that operate as designed to monitor budget performance, contracts and grants. |
| <input type="checkbox"/> Determine that the system of internal accounting and administrative control operates as designed and accurately provides timely information needed to comply with County requirements. |

Approach

Our audit approach consisted of four phases:

Understanding and Documentation of Process

During phase one, we held an entrance conference with the Transportation Engineering, Road & Bridge, TPO/MPO, SCAT and other personnel to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then conducted interviews with responsible LOGT personnel and documented their role in the process.

Population and Sample Determination

The time period covered by the testing was October 1, 2004 through September 30, 2006.

Detailed Testing

The purpose of this phase was performance of testing procedures based on our understanding of the LOGT operations, applicable county ordinances, and federal and state statutes. Our procedures included observation and inquiry, walk-throughs, and testing of individual transactions.

Our procedures included, but were not limited to, testing revenue tracking and expenditures.

Reporting

During this phase, we summarized our findings, based on our detailed testing, into a report format and conducted an exit conference with management and incorporated their responses into our report.

Issues and Recommended Actions

| Rating | Issues | Recommendation | Management Response | Status |
|------------|--|--|--|---------------|
| Low | <i>1. Gas Tax Funds Tracking</i> | | | |
| | <p>A large amount of time was spent learning the process for tracking the gas tax revenues received and reconciling those receipts to the transfers/expenditures for each department. This was especially difficult since some departments did not isolate the revenues and expenditures relating to the gas tax. Revenues were typically lumped into an account with other department revenues to cover all expenditures whether or not they were related to the gas tax. Processes at the different departments were as follows:</p> <p>Space Coast Area Transit (SCAT). The SCAT department records all operating expenses in one fund group and transfers 'gas tax expenditures' to a separate fund by 'lump sum' journal entry for the amount of gas tax monies received. Therefore, the internal auditors could not verify specifically which expenditures were related to the gas tax revenues. However, since gas tax revenues are authorized for all SCAT transportation 'program expenditures' this was not considered a significant reportable condition.</p> <p>Metropolitan Planning Organization (MPO). The MPO department operates on two main grants and several other small grants. A Federal Transit Administration (FTA) grant is an 80/10/10 match grant. A 10% match is required from the state and 10% from the County. MPO is budgeted to receive \$60,000 in gas tax monies each year for use as the County match on this grant. Employees track time and expenses as they relate to grant and non-grant activities. The internal auditors reviewed the grant related activities noting no unusual expenditures.</p> | <p>Discussion with County personnel indicates that beginning in FY 06/07 support from gas tax funds was eliminated from the Road and Bridge and Traffic Engineering departments. These funds were returned to the budget for use in debt service and reserves. During FY06/07 MPO/TPO and SCAT is receiving limited funding for grant matches from gas tax funds. In addition, during FY 06/07, the Transportation Engineering (less Traffic Engineering) department, debt service on the bonds and reserves are being funded with LOGT funds.</p> <p>Since the areas of Transportation Engineering and SCAT that receive LOGT funds are not restricted as to their use, no additional tracking of revenues and expenditures is deemed necessary at this time.</p> | <p>Transportation, SCAT, MPO/TPO and Road & Bridge department management agree with auditor recommendation. Should future funding from LOGT be re-established for the Road & Bridge department a separate fund will be established in the accounting system to track expenditures associated with LOGT revenues.</p> | Closed |

| Rating | Issues | Recommendation | Management Response | Status |
|------------|---|----------------|---------------------|--------|
| Low | <i>1. Gas Tax Funds Tracking- continued</i> | | | |
| | <p>Road and Bridge (R&B). The R&B department has the following revenue and expense budgets:</p> <ul style="list-style-type: none"> ▪ New construction – R&B performs new construction services, which is work done for other departments and billed at actual + 15% administrative fee. The revenue account these monies are recorded in is #3449000 Other Trans Receipts. ▪ Regulatory – previously R&B would perform inspections for citizens and companies of driveways, etc. Beginning in FY2006 the permitting department provides this service. ▪ Internal Support – this budget is the administration personnel in the Viera office (Director, Assistant Director, Finance, etc.). These costs are distributed by percentages based on historical demands of Internal Support staff as follows: Maintenance (74%), Construction (15%), Mechanic (5.5%), and Landscaping (5.5%). ▪ Budget transfers – this budget is used to pay for the cashier on the first floor of the government building – all departments contribute to her salary. ▪ Debt Service – this budget is used to pay off a loan to buy equipment. It should be completely repaid in FY06. ▪ Landscape – this budget area is not eligible to receive LOGT funds. <p>We tested 11.53% and 15.58 % of total R&B department expenditures for FY 2006 and FY 2005, respectively. All expenditures tested were deemed appropriate and fell within the boundaries of the Florida Statutes. However, R&B does not trace specific LOGT dollars through the SAP system. The funds are transferred to their budget and presumed to be used to cover expenditures in the roadway maintenance area. Therefore, specific gas tax dollar expenditures could not be reviewed.</p> | | | |

| Rating | Issues | Recommendation | Management Response | Status |
|------------|--|----------------|---------------------|--------|
| Low | <i>1. Gas Tax Funds Tracking- continued</i> | | | |
| | <p>Transportation Engineering (TE). The TE department consists of several programs/services:</p> <ul style="list-style-type: none"> ▪ Engineering design and review services - This department does not receive any local option gas tax (LOGT) funding. ▪ Survey & mapping services – consists of county surveying, vacating ROW use agreements and map reproduction. This department provides support to transportation engineering and does surveying for the County and other departments. This department receives a transfer to support the surveying expenditures of its budget. There is no LOGT used for the Vacating ROW Use Agreements or Map Reproduction. ▪ Traffic engineering – consists of putting up signs, signals and markings; traffic data collection and analysis; site plan review for new developments, street lights and traffic accident analysis. This department receives a transfer of funds to support its budget. In FY07 this department will not receive any LOGT funding. | | | |

| Rating | Issues | Recommendation | Management Response | Status |
|------------|--|----------------|---------------------|--------|
| Low | 1. Gas Tax Funds Tracking- continued | | | |
| | <ul style="list-style-type: none"> ▪ Road construction services – which consists of construction management, contract administration and land acquisition. This department is supported 100% by LOGT funds. <ol style="list-style-type: none"> 1. Transportation engineering administrative personnel are responsible for hiring consultants, obtaining right of ways for projects. 2. Construction management is responsible for overseeing the inspectors on the construction projects. They also review plans submitted by contractors for a project. 3. Contract administration is responsible for administering the contracts with vendors (e.g. surveying, etc.). 4. Land Acquisition personnel are responsible for acquiring the land for the road construction projects. <p>The TE department receives the bulk of the monies from the LOGT. During FY04/05 and FY 05/06, it received \$7,795,768 and \$7,540,590, respectively.</p> <p>Since most of the projects for transportation engineering have been bonded out, much of the LOGT goes to debt service. Because the TE department exists mainly on gas tax funds, specific expenditures are not tracked. It is presumed that salaries are paid 100% by gas tax funds. All expenditures tested were deemed appropriate and fell within the boundaries of the Florida Statutes and are considered appropriate expenditures to fund the department and its programs.</p> | | | |

| Rating | Issues | Recommendation | Management Response | Status |
|-------------|--|--|---|--------------------|
| High | 2. Payroll | | | |
| | <p>In order to test payroll, we selected 10 individuals from both FY05 and FY06. We obtained time sheets, wage statements and SAP time entry screen shots for comparison, a list of employees (both current and dismissed) along with a PBC list of current pay rates. We reviewed time sheets for process errors, and compared payments to employees to a list of employees to ensure there were no payments to unauthorized persons.</p> <p>There were no payments to inappropriate persons noted during testing, however, there were several process exceptions as follows:</p> <p><i>Road & Bridge</i> In FY 04/05, seven exceptions (across five employees) of the ten employees tested were noted, as follows:</p> <ul style="list-style-type: none"> ▪ 1 coding error to SAP (emergency leave was coded as regular attendance), ▪ 2 time sheets were not signed by the employee, and ▪ 4 time sheets were not signed by the supervisor. <p>In FY 05/06, three of ten employees tested did not have time sheets signed by the supervisor as verification of hours worked.</p> <p><i>Transportation Engineering</i> In FY 04/05, one of ten employees selected for testing had a coding error to SAP from the respective time sheet (6 hours of overtime was coded as regular time).</p> <p>In FY 05/06, one of ten employees tested did not have a time sheet signed by the supervisor as verification of hours worked.</p> <p><i>SCAT</i> In FY 04/05, two of ten employees tested did not have time sheets signed by the supervisor as verification of hours worked.</p> <p>No exceptions were noted in FY 05/06.</p> | <p>Departments should correct items identified during audit, as necessary, if not already corrected.</p> <p>Departments should implement a procedure to ensure the payroll policy is being followed, including employee signing of timesheets, supervisor review and approval of timesheets, and a review of SAP input to ensure accuracy.</p> | <p><i>Road & Bridge</i> A memorandum to remind all employees and supervisors of the time card responsibilities will be sent.</p> <p>In addition, a procedure will be implemented to ensure all time entry is correct and all time sheets are properly signed and approved.</p> <p>Expected completion date: June 1, 2007 Expected test date: August 2007</p> <p><i>Transportation Engineering</i> A memorandum to remind all employees and supervisors of the time card responsibilities will be sent.</p> <p>In addition, a procedure will be implemented to ensure all time entry is correct and all time sheets are properly signed and approved.</p> <p>Expected completion date: June 1, 2007 Expected test date: August 2007</p> <p><i>SCAT</i> A procedure for time sheet review exists, which is why there were no errors identified in FY 05/06. An email to remind all employees and supervisors of the time card responsibilities will be sent. Expected completion date: June 1, 2007 Expected test date: August 2007</p> | <p>OPEN</p> |