

## STAFF ANALYSIS

**Date:** November 29, 2017

**Subject:** Request for an Audit of the East Flagler Mosquito Control District

Analyst            Coordinator

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### I. Summary:

The Joint Legislative Auditing Committee (Committee) has received a request from Senator Travis Hutson and Representative Paul Renner to have the Committee direct the Auditor General to conduct an operational audit of the East Flagler Mosquito Control District.

### II. Present Situation:

#### Current Law

Joint Rule 4.5(2) provides that the Legislative Auditing Committee may receive requests for audits and reviews from legislators and any audit request, petition for audit, or other matter for investigation directed or referred to it pursuant to general law. The Committee may make any appropriate disposition of such requests or referrals and shall, within a reasonable time, report to the requesting party the disposition of any audit request.

Joint Rule 4.5(1) provides that the Legislative Auditing Committee may direct the Auditor General or the Office of Program Policy Analysis and Government Accountability (OPPAGA) to conduct an audit, review, or examination of any entity or record described in Section 11.45(2) or (3), *Florida Statutes*.

Section 11.45(3)(a), *Florida Statutes*, provides that the Auditor General may, pursuant to his or her own authority, or at the discretion of the Legislative Auditing Committee, conduct audits or other engagements as determined appropriate by the Auditor General of the accounts and records of any governmental entity created or established by law.

Section 11.45(2)(j), *Florida Statutes*, provides, in part, that the Auditor General shall conduct a follow-up to his or her audit report on a local governmental entity no later than 18 months after the release of the audit report to determine the local governmental entity's progress in addressing the findings and recommendations contained in the previous audit report.

#### Request for an Audit of the East Flagler Mosquito Control District

Senator Hutson and Representative Renner have requested the Committee to direct an operational audit of the East Flagler Mosquito Control District (District). They stated that the District recently reported a budget deficit of \$1,100,000; its total budget is \$1,800,000, making this deficit very substantial and the subject of significant concern to Flagler County taxpayers. They further stated that the District incurred

this deficit while spending \$2,100,000 to construct a new facility for its 14 employees, a facility that includes an adjacent helipad.

### **Background**

The East Flagler Mosquito Control District (District) was created as an independent special district in accordance with Chapter 388, *Florida Statutes* [Mosquito Control]. “Pursuant to the results of a special election, the Board of County Commissioners of Flagler County, Florida, ORDERED the creation of the District at a special meeting held on July 21, 1952. [The] District was created to achieve and maintain such levels of arthropod<sup>1</sup> control, as well as protect human health and safety, and foster the quality of life of the people, promote the economic development of the state, and facilitate the enjoyment of its natural attractions by reducing the number of pestiferous and disease-carrying arthropods.”<sup>2</sup>

The District, a special-purpose governmental entity engaged in a single governmental program – mosquito control,<sup>3</sup> is governed by a three-member Board of Commissioners,<sup>4</sup> each elected on a nonpartisan basis by the electors of the District to serve a four-year term.<sup>5</sup> It is funded through ad valorem taxes and currently encompasses 117 square miles and has a perimeter of 53.8 miles.<sup>6</sup> The District’s mission is “the suppression of those mosquito species that may cause illness or significant discomfort, within a specific control area and with minimal environmental impact.”<sup>7</sup> Services provided by the District are:<sup>8</sup>

- Mosquito surveillance: Perform daily population tracking, which provides information about species composition and abundance and gauges control efforts;
- Mosquito-related illness: Monitor the circulation of mosquito-related illness (i.e., Eastern Equine Encephalitis, St. Louis Encephalitis, and West Nile Virus) within the District using sentinel birds;
- Mosquito source reduction: Modify aquatic mosquito nursery sites to make them unsuitable for mosquito development; such tasks range from the disposal of waste products of society which hold water (tires, containers) to the development of mosquito management plans that address wetlands, both natural and created;
- Controlling immature mosquitoes: Target immature mosquitoes developing in their aquatic nursery with specific control products in order to eliminate the entire “brood” so that the adult mosquitoes never emerge; and

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<sup>1</sup> “Arthropod” means those insects of public health or nuisance importance, including mosquitos, midges, sand flies, dog flies, yellow flies, and house flies (Section 388.011(1), *Florida Statutes*).

<sup>2</sup> Note 1. to the Financial Statements, *East Flagler Mosquito Control District Annual Financial Report for the Year Ended September 30, 2016*, page 16.

<sup>3</sup> Note 1.A. to the Financial Statements, *East Flagler Mosquito Control District Annual Financial Report for the Year Ended September 30, 2016*, page 16.

<sup>4</sup> East Flagler Mosquito Control District website: [<http://www.flaglermosquito.com/about-us/commissioners-administration/>].

<sup>5</sup> Section 388.101(1), *Florida Statutes*.

<sup>6</sup> A map of the District’s boundaries can be viewed on the District’s website: [<http://www.flaglermosquito.com/about-us/district-boundaries/>].

<sup>7</sup> East Flagler Mosquito Control District website: [<http://www.flaglermosquito.com/>].

<sup>8</sup> East Flagler Mosquito Control District website: [<http://www.flaglermosquito.com/operations/mosquito-control-measures/>].

- Controlling biting mosquitoes: As a final recourse, provide temporary relief in residential areas through the use of atomized insecticides.<sup>9</sup>

## **Recent Concerns, Events, and Other Information**

### Concerns

As previously mentioned, Senator Hutson and Representative Renner are concerned about the District's reported budget deficit of \$1.1 million and its impact on the District's future operations. In a joint news release, Representative Renner stated, "Flagler residents pay additional taxes to support an independent mosquito control district and reasonably expect the [D]istrict to achieve greater efficiency and cost savings...The lack of internal controls and safeguards that caused this deficit certainly call that efficiency into question." In addition, Senator Hutson stated, "It is important that we know how the Flagler Mosquito Control District uses its budget year to year. An audit will give us an opportunity to see where taxpayer dollars are spent."<sup>10</sup>

### Events and Other Information

There have been various news articles regarding the District's budgeting issues and construction of a new facility, as well as subsequent actions taken by the District's Board and management regarding the budgeting issues:

#### *Construction*

In June 2017, the District completed construction on and staff moved into a new 10,000 square-foot facility, with an adjacent chemical storage building and helipad.<sup>11</sup> Construction on this new facility, located at the Flagler Executive Airport, was started in June 2015 in order to unite three separate District substations in a single location and allow for the District's ability to handle future growth within the District's boundaries. Previously, the District's lab and helipad were located at a different location from the administrative headquarters.<sup>12</sup>

#### *Budget Issues*

- District staff made an error when preparing the budget documents for the 2016-17 fiscal year<sup>13</sup> and used an incorrect amount as the beginning fund balance. They did not properly account for certain construction costs from the new facility and input the beginning fund balance of \$2.89 million from the prior fiscal year (2015-16) rather than the ending fund balance of \$1.79 million. This error resulted in the beginning fund balance for the 2016-17 fiscal year being overstated by \$1.10 million.<sup>14</sup>

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<sup>9</sup> All are approved for mosquito control by the Environmental Protection Agency and the Florida Department of Agriculture and Consumer Services.

<sup>10</sup> Nick Klasne, *Renner, Hutson request audit of Flagler Mosquito Control District*, The Daytona Beach News-Journal, August 25, 2017.

<sup>11</sup> A helicopter is used by the District to spray the area for mosquitoes. (Brittany Jones, *East Flagler Mosquito Control District faces \$1.1M budget deficit*, Flagler County Reporter, August 8, 2017).

<sup>12</sup> Matt Bruce, *Ribbon-cutting marks future of Flagler airport's industrial corridor*, The Daytona Beach News-Journal, June 9, 2017/updated June 12, 2017.

<sup>13</sup> The District's fiscal year is from October 1 to September 30.

<sup>14</sup> Matt Bruce, *'Oversight' puts Flagler mosquito control in \$1.1M hole*, The Daytona Beach News-Journal, August 4, 2017/updated August 5, 2017.

- The error, which inflated the amount of surplus funds from prior years available for District use, was discovered by the District's auditors in July 2017, who alerted District staff. The District then amended its budget to reflect the correct beginning fund balance of \$1.79 million. By this time, the District had been expending monies for operational and construction activities based on the approved budget.<sup>15</sup>
- In late July 2017, the District's director placed a freeze on all but essential spending through the current, and into the next, years but stated "that [would] not be enough to balance the 2017-18 budget, which as of mid-July was projected to fall \$156,000 short even with the 5 percent tax increase approved." It was reported that adjustments made to close the gap could include laying off two full-time employees and four part-time staff members, as well as drawing back on buying new equipment and trying to sell the District's old administrative headquarters for about \$300,000 by October. The director further stated that, "[i]f we sell the property, we're going to be fine."<sup>16</sup>
- The director subsequently resigned in late August 2017, and the District's Board selected the District's operations manager to replace him.<sup>17</sup> He had been the District's director since 1978 and was reported to have been transitioning into retirement for the past couple of years and had turned over all administrative duties to the operations manager.<sup>18</sup> At the same meeting, the District's Board approved changes to the tentative 2017-18 fiscal year budget, which included reductions in expenditures for capital outlay, travel, insurance, maintenance and repairs, training, gasoline, tools, and salaries and benefits. The District's final budget was scheduled to be approved at the September 18, 2017, final budget hearing.<sup>19</sup>
- It was reported that Flagler County's financial services director performed an independent review of the District's finances in August 2017 and determined that the accounting error was detected before the District actually spent the funds it over-budgeted.<sup>20</sup>
- In early October 2017, the City of Palm Coast voted to purchase the District's old administrative headquarters for \$317,000. Also in early October 2017, the District's new director stated that the auditors had started the financial audit for the 2016-17 fiscal year, which ended on September 30, 2017, and "think[s] it will give us a confirmed opinion of what we already suspect... That there was no malfeasance or criminality; it was just a very large accounting error. We do still have money in the bank, we're still operating, there was no deficit. We just have less money than what we thought."<sup>21</sup>

## **Financial Audit**

The District has obtained annual financial audits of its accounts and records by an independent certified public accountant (CPA) and has submitted the audit reports to the Auditor General's Office in

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<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> Matt Bruce, *East Flagler Mosquito Control District director resigns*, The Daytona Beach News-Journal, August 21, 2017.

<sup>18</sup> Matt Bruce, *Flagler Mosquito Control board set to tackle \$1.1M budget shortfall*, The Daytona Beach News-Journal, August 19, 2017.

<sup>19</sup> Matt Bruce, *East Flagler Mosquito Control District director resigns*, The Daytona Beach News-Journal, August 21, 2017.

<sup>20</sup> *Id.*

<sup>21</sup> Matt Bruce, *Palm Coast to pay \$317K for old mosquito control HQ*, The Daytona Beach News-Journal, October 5, 2017/updated October 9, 2017.

accordance with Section 218.39(1), *Florida Statutes*.<sup>22</sup> The most recent audit report submitted to the Auditor General is for the 2015-16 fiscal year. There have been no audit findings included in the last five annual financial audit reports.

*Summary of Certain Financial and Operations Information Included in the District's Audit Report:*

- “In preparing for the 2015/2016 budget, the Board of Commissioners adopted a millage rate of .2376, which exceeded the rolled back rate by 2.99%. The Board approved a \$2,000,000 budget for the construction & consolidation of all District offices and staff at the Flagler County Airport. As the construction project is still currently on-going, only \$1,372,000 has been spent as of September 30, 2016. Completion of the new facility is anticipated to be by the summer of 2017.”<sup>23</sup>
- The District has one fund, the General Fund. “District revenues were \$1,548,796, while expenses totaled \$1,603,363. Ad valorem taxes provided \$1,530,875; a slight increase over the preceding year. Net assets decreased by \$54,567.”<sup>24</sup>
- “At the conclusion of the fiscal year, September 30, 2016, the District had assets totaling \$4,264,058, liabilities of \$836,180, and net position of \$3,630,222.”<sup>25</sup>
- “Due to the construction of the new facility, the fund balance...decreased by \$1,105,380 for the year ended September 30, 2016.”<sup>26</sup> The fund balance of the General Fund at fiscal year-end was \$1,785,978.<sup>27</sup>
- “Mosquito populations are driven by rainfall and tides, and may vary widely from year to year. That fact, coupled with the seasonal presence/absence of mosquito-borne diseases, require that the District annually plan for an exceptional mosquito season and fund the budget accordingly. The 2015/2016 season featured an unusually dry spring and summer, low mosquito populations, and very little in the way of nuisance problems. The highest mosquito populations were experienced at the very beginning of the fiscal year due [to] the Proxigean Tide (king tide) occurring in late September producing extremely high tides in the salt marsh and resultant surge in mosquito production in October 2015. Diminished rainfall lead to a lack of mosquito activity during the peak months of the season, resulting in all line items coming in under budget.”<sup>28</sup>
- “Overall disease activity for the year was also low...however, a declaration of public health emergency was issued by the Florida Department of Health on September 19, 2016 in response to the first two travel related cases of Zika in Flagler County. Additional expenses were incurred due to enhanced surveillance in high risk areas in advance of the declaration as well as the cost of additional trapping and treatment equipment.”<sup>29</sup>

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<sup>22</sup> Pursuant to Section 218.39(7), *Florida Statutes*, these audits are required to be conducted in accordance with rules of the Auditor General promulgated pursuant to Section 11.45, Florida Statutes. The Auditor General has issued *Rules of the Auditor General, Chapter 10.550 - Local Governmental Entity Audits* and has adopted the auditing standards set forth in the publication entitled *Government Auditing Standards* (2011 Revision) as standards for auditing local governmental entities pursuant to Florida law.

<sup>23</sup> *Management's Discussion and Analysis; East Flagler Mosquito Control District Annual Financial Report for the Year Ended September 30, 2016*, page 3.

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*, page 7.

<sup>27</sup> *Statement of Revenues, Expenditures and Changes in Fund Balance, Governmental Fund - General Fund; East Flagler Mosquito Control District Annual Financial Report for the Year Ended September 30, 2016*, page 14.

<sup>28</sup> *Management's Discussion and Analysis; East Flagler Mosquito Control District Annual Financial Report for the Year Ended September 30, 2016*, page 3.

<sup>29</sup> *Id.*

### **Other Considerations**

The Auditor General, if directed by the Committee, will conduct an operational audit as defined in Section 11.45(1)(g), *Florida Statutes*, and take steps to avoid duplicating the work efforts of other audits being performed of the District's operations, such as the annual financial audit and grant-related audits and reviews conducted by federal and state grantor agencies, if any. The primary focus of a financial audit is to examine the financial statements in order to provide reasonable assurance about whether they are fairly presented in all material respects. The focus of an operational audit is to evaluate management's performance in establishing and maintaining internal controls and administering assigned responsibilities in accordance with laws, rules, regulations, contracts, grant agreements, and other guidelines. Also, in accordance with Section 11.45 (2)(j), *Florida Statutes*, the Auditor General will be required to conduct an 18-month follow-up audit to determine the District's progress in addressing the findings and recommendations contained within the previous audit report.

The Auditor General has no enforcement authority. If fraud is suspected, the Auditor General may be required by professional standards to report it to those charged with the District's governance and also to appropriate law enforcement authorities. Audit reports released by the Auditor General are routinely filed with law enforcement authorities. Implementation of corrective action to address any audit findings is the responsibility of the District's governing board and management, as well as the citizens living within the boundaries of the District. Alternately, any audit findings that are not corrected after three successive audits are required to be reported to the Committee by the Auditor General, and a process is provided in Section 218.39(8), *Florida Statutes*, for the Committee's involvement. First, the District may be required to provide a written statement explaining why corrective action has not been taken and to provide details of any corrective action that is anticipated. If the statement is not determined to be sufficient, the Committee may request the Chair of the District's governing board to appear before the Committee. Ultimately, if it is determined that there is no justifiable reason for not taking corrective action, the Committee may direct the Department of Economic Opportunity to proceed pursuant to the provisions specified in Sections 189.062 [inactive status] or 189.067 [court enforcement], *Florida Statutes*.

### **III. Effect of Proposed Request and Committee Staff Recommendation**

If the Committee directs the Auditor General to perform an operational audit of the East Flagler Mosquito Control District, the Auditor General, pursuant to the authority provided in Section 11.45(3), *Florida Statutes*, should focus on the District's internal controls and operations relating to budgeting and construction and its compliance with applicable laws, rules, and regulations governing those areas. The Auditor General shall finalize the scope of the audit during the course of the audit, providing that the audit-related concerns of Senator Hutson and Representative Renner as included in their request letter and herein are considered.

### **IV. Economic Impact and Fiscal Note:**

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

If the Committee directs the audit, the Auditor General will absorb the audit costs within her approved operating budget.

**V. Related Issues:**

None.

This staff analysis does not reflect the intent or official position of the requestor.
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