



Department of Environmental Protection Office of Inspector General

October 11, 2022

Report A-2122DEP-012

Audit of Activities Funded by Tag Fee Allocations to Duval County

INTRODUCTION

The Office of Inspector General (OIG) conducted an audit of the Specific Operating Agreement (Agreement) between the Department of Environmental Protection (Department) Division of Air Resource Management (Division) and the Air Quality Branch of Duval County (County). This audit was initiated as a result of the Fiscal Year 2021-2022 Annual Audit Plan.

BACKGROUND

The Department of Environmental Protection (Department) administers programs approved or delegated by the United States Environmental Protection Agency. Section 403.182, Florida Statutes (F.S.), authorizes the Department to approve local pollution control programs (Program) that assist the Department with meeting the Clean Air Act's regulatory, monitoring, and permitting requirements.

The Agreement established the County as an approved Program. To fund the Program, the Agreement provides for the County's use of tag fees collected from each new vehicle registration, renewal, or transfer within the County. Tag fees returned to counties must be deposited into the Program trust fund and be used only for Program activities control of emissions from mobile sources and toxic and odor emissions, air quality monitoring, and facility inspections.

According to Section 320.03, F.S., the amount of tag fees returned to the County is based on the ending balance of the Program trust fund. If the fiscal year-end unencumbered balance of the County's Program trust fund is less than 50% of the tag fees returned to the County, the County receives 75% of the following year's tag fees. If the Program trust fund balance exceeds 50% of tag fees returned to the County, the County receives 50% of the following year's tag fee collections.

TAG FEE COLLECTIONS AND PAYMENTS

The table below shows the tag Fees collected by the County and the amount returned to the County for the fiscal years ended September 30, 2019; September 30, 2020; and September 30, 2021. During these three fiscal years, the County received 75% of collected tag fees:

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COUNTY FISCAL YEAR	TAG FEE COLLECTIONS	AMOUNT RETURNED TO COUNTY	% OF COLLECTIONS RETURNED
2018-2019	\$870,918.00	\$653,188.50	75%
2019-2020	\$861,726.00	\$646,294.50	75%
2020-2021	\$941,783.00	\$682,570.73	75%
Total for the 3 Years Ended 9/30/2021	\$2,674,427.00	\$1,982,053.73	75%

Section 12 of the Agreement requires the County to submit an Annual Fiscal Report to the Division within 60 days after the end of the County's fiscal year summarizing the Program activities funded by tag fees. As shown in the following table, for the fiscal year ended September 30, 2021, the County's Statement of Changes in Fund Balance reported an ending unencumbered balance equivalent to 94.79% of the County's tag fee revenue, entitling the County to receive 75% of tag fees collected during the following County fiscal year.

Adjusted Fund Balance – October 1, 2020	\$157,771.41
Revenue	
Tag Fees Returned to the County	\$682,570.73
Interest	\$5,015.16
Total Revenue	\$845,357.30
Expenditures and Encumbrances	
Expenditures	\$622,620.76
Encumbrances	\$(2,343.94)
Total Expenditures and Encumbrances	\$620,276.82
Ending Fund Balance – September 30, 2021	\$647,060.57
Penalties, Interest, Miscellaneous– September 30, 2021	\$(518,025.75)
Adjusted Fund Balance – September 30, 2021	\$129,034.82

The Program trust fund, used by the County, includes revenues resulting from penalties assessed in 2004 from a non-tag fee program, interest earned from the penalty revenue, and adjustment to market securities. For the purpose of reporting tag fee fund activities per Section 320.03, F.S., the County has deducted these amounts in the calculation of the ending fund balance as well as all interest earned in the trust fund since funds were commingled.

RESULTS OF AUDIT

At the end of each fiscal year, the County submits to the Division a Year End Financials Statement showing the beginning balance of the Tag Fee trust fund, revenue, interest, expenditures, encumbrances, and ending balance. According to the Year End Financial Statements and interviews with Division staff, tag fees returned to the County were deposited into a shared trust fund containing additional funds which are not associated with the air pollution control program. These funds totaled \$305,898.14 and are noted

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as penalties on the Year End Financial Statements. In addition, the Year End Financial Statements identified \$212,127.61 as interest that is not attributed to tag fee revenue. The County maintains a General Ledger detailing the County's Tag Fee expenditures. We compared the total expenses recorded in the General Ledger, with the total expenses reported on the Year End Financial Statements. The expenses were consistent among the General Ledger and Year End Financial Statements with minor discrepancies.

To verify the salary costs reported by the County in the Year End Financial Statements and General Ledger, we reviewed payroll registers. To verify reported fringe and indirect costs, we applied the County's salary multipliers for fringe and indirect costs. Overall, the salary, fringe, and indirect cost reported by the County in the General Ledger were supported by payroll registers and the County's salary multipliers for fringe and indirect costs. In addition, the County provided organization charts and position summaries for the County staff who charged hours to the Program.

To determine the accuracy of the Program's expenditures, we selected samples of 16 expenditure transactions totalling \$58,166.19, excluding salaries and fringe recorded in the General Ledger. For each sampled transaction we reviewed backup documentation to verify the transaction was an allowable tag fee expenditure. All sampled expenditures were supported by receipts and transaction documentation. In addition, all 16 sampled expenditures appeared to be allowable as Program expenses, in accordance with Chapter 403, F.S.

CONCLUSION

Based on our review and analysis of support documentation and interviews with Division and County staff, reported Program expenditures were supported by backup documentation and appeared to be allowable tag fee expenses, as specified in Chapter 403, F.S. However, the County has deposited funds not associated with the air pollution control programs into the local air pollution control trust fund which is not in accordance with Section 320.03 (6), F.S.

Our finding and recommendation are contained in the remainder of this report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Local Pollution Control Program Trust Fund

According to Section 320.03, F.S., tag fees returned to the County must be deposited *into a local air pollution control program trust fund, which must be established by the county and used only for air pollution control programs relating to the control of emissions from mobile sources and toxic and odor emissions, air quality monitoring, and facility inspections pursuant to chapter 403 or any similar ordinance.* The County has established a local air pollution control trust fund. The County tag fee revenues are

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deposited to this fund. However, the trust fund contains additional funds which are not associated with the air pollution control program. These funds include a 2004 assessed penalty of \$305,898.14, interest, and adjustments to market securities which are not attributable to tag fee revenues. The Year End Financial Statements summary of the air pollution control program trust fund included a listing of the original penalty as well as the accrued interest on both tag fee revenues and the original penalty amount.

Per Section 320.03, F.S., the amount of tag fees returned to the County is based on the ending balance of the Program trust fund. If the Fiscal Year End unencumbered balance of the County's Program trust fund is less than 50% of the tag fees returned to the County, the County receives 75% of the following year's tag fees. If the Program trust fund balance exceeds 50% of tag fees returned to the County, the County receives 50% of the following year's tag fee collections.

According to the air pollution control trust fund summary in the County's fiscal year end 2021 Year End Financial Statements, tag fee revenues and the ending fund balance were as follows.

Tag Fee Revenues	Ending Fund Balances
<i>Adjusted Fund Balance – October 1, 2020</i>	\$157,771.41
2021 Revenue	
<i>Tag Fees Returned to the County</i>	\$682,570.73
<i>Interest</i>	\$5,015.16
Total Revenue	\$687,585.89
Expenditures and Encumbrances	
<i>Expenditures</i>	\$603,262.30
<i>Encumbrances</i>	\$(2,343.94)
Total Expenditures and Encumbrances	\$600,918.36
<i>Unadjusted Ending Fund Balance – September 30, 2021</i>	\$757,449.53
<i>Penalties, Interest, Miscellaneous– September 30, 2021</i>	\$(518,025.75)
Adjusted Fund Balance – September 30, 2021	\$239,423.78

The fiscal year end 2021 unencumbered ending balance in the local air pollution control trust fund was \$757,449.53, which exceeds 50% of the fees returned to the County for 2021 (\$682,570.73). However, upon adjustment of the original \$305,898.14 penalty, as well as \$212,127.61 in accrued interest, the adjusted balance of \$239,423.78 does not exceed 50% of the fees returned to the County. Each year since 2004, the County has subtracted all interest earned in the trust fund, both from tag fee revenues and the penalty amount from the adjusted balance. The County has not allocated a portion of the earned interest to tag fee funds. As a result, the County's adjusted balance has excluded accruing interest revenue which should have been used in the calculation of the ending unencumbered balance.

Given these circumstances, the Division does not have assurance that the County's unencumbered balance is being reported accurately.

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Recommendation

We recommend the Division work with the County to ensure that the local air pollution control program trust fund established by the County is used only for air pollution control programs as required under Section 320.03, F.S. In addition, if the County is unable to provide the Division assurance of the accuracy of the reported unencumbered balance, we recommend the Division reduce the County's allocation of tag fees to 50% of the amount collected. We further recommend the Division seek reimbursement for funds determined to be allocated to the County in excess of the percentage allowed under Section 320.03, F.S.

Division Response

The Division acknowledges that the County's trust fund contains a 2004 penalty of \$305,898.14 as well as the accumulated interest earned on this penalty. When providing its annual certification of tag fee funds, the County adjusts their ending federal fiscal year balance by subtracting out the penalty amount plus *all* interest earned on the account. This may not be appropriate since the total interest also includes interest earned on the tag fee revenues. The Division agrees that comingling these separate funds makes it difficult to determine whether the County is eligible for the full 75% of tag fee revenues.

On September 26, 2022, the Division held a call with Duval County to discuss the preliminary findings in OIG's report. The County's Local Air Program Administrator agreed to work towards removing the penalty and any interest earned on the penalty from the air pollution control trust fund moving forward. They will make this request to their County's financial section as soon as possible, and they expect a correction by the end of the calendar year. This will make the annual certification much more transparent.

The Department reviewed the annual certifications since the 2004 penalty was comingled. For the majority of these years, it is clear that the County spent down the tag fee balance below 50%. The Division will use its discretion not to seek reimbursement for any years in question. The Division proposes the following steps to resolve this OIG finding:

- The Division will work with the County to remove the 2014 penalty and related interest from the tag fee trust fund.
- The Division will notify OIG once the 2004 penalty and related interest is removed from the tag fee trust fund.
- Once available, the Division will forward to OIG the annual certification for the County for the latest federal fiscal year (10/01/2021 to 09/30/2022). The annual certification is due to the Division by January 6, 2023, and the certification will show the change.
- The Division will notify OIG of any changes to this schedule.

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The Division will reserve the right to reduce the pass-through tag fee funds to 50% if the County resists implementing this change. Thank you for your efforts in conducting this audit.

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APPENDIX A - PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

The purpose of this engagement was to initiate an audit of Duval County local air pollution control program activities funded by tag fee allocations pursuant to Section 320.03(6), F.S. and through the Department's Division of Air Resource Management (DARM).

The scope of the audit included the County's Local Air Pollution Control Program activities funded through tag fee a during the period of October 1, 2020, and ending September 30, 2021.

The objectives were to:

- determine whether expenditures reflected in annual fiscal reports submitted by the County were allowable according to Chapter 403, Florida Statutes (F.S.), and the Agreement between the Division and County.

To achieve our audit objectives, our methodology included:

- Reviewing applicable statutes, regulations, and internal operating procedures;
- Reviewing procurement activities for Department contracts and purchase orders; and
- Interviewing appropriate Department staff and management regarding the processes and controls used in the procurement and contracting process.

STATEMENT OF ACCORDANCE

Statement of Accordance

The Mission of the OIG is to promote accountability, integrity, and efficiency by providing quality audits, investigations, management reviews, and technical assistance.

This work product was prepared pursuant to Section 20.055, Florida Statutes, in accordance with the *Principles and Standards for Offices of Inspectors General* as published by the Association of Inspectors General and the *International Standards for the Professional Practice of Internal Auditing*, as published by the Institute of Internal Auditors, Inc. The audit was conducted by Cindy Newsome and supervised by Candie M. Fuller.

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Office of Ombudsman and Public Services
public.services@floridadep.gov
(850) 245-2118

Candie M. Fuller,
Inspector General