

Hernando County Clerk of Circuit Court's
Audit Services Department
Board of County Commissioners'
TOURIST DEVELOPMENT DEPARTMENT
EXPENDITURES AUDIT
February 14, 2008

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
MEMORANDUM

TO: Mike McHugh, Office of Business Development Director
Sue Rupe, Tourist Development Coordinator

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CFE, CISA, Audit Services Director

DATE: February 14, 2008

SUBJECT: Tourist Development Department Expenditures Audit

The Audit Services Department's (ASD) Audit Projects Schedule included a review of the Board of County Commissioners' Tourist Development Department Expenditures. Based on testing, observations, and communications with key personnel, the ASD has produced the attached report for your review. Management's response to the recommendations is also included. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the ASD exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I would like to thank the Office of Business Development and the Tourist Development Departments' management and staff members for their cooperation during this project.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office in Room 201.

ATTACHMENT

copy: BOARD OF COUNTY COMMISSION:

Chairman Christopher "Chris" Kingsley
Commissioner Diane Rowden
Commissioner Rose Rocco
Commissioner Dave Russell, Jr.
Commissioner Jeff Stabins
Larry Jennings, Interim County Administrator
George Zoettlein, Office of Management and Budget Director
Jon Jouben, Assistant County Attorney

CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

OTHER:

Lori Nissen, Partner, KPMG
Hernando Today
St. Petersburg Times - Hernando Edition
WWJB Radio Station
Hernando County Public Library

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Acknowledgement

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Peggy Prentice, Audit Services Director

Assistance was provided by: Nancy Brown, Audit Administrative Assistant

Management's response was provided by:

Sue Rupe, Tourist Development Coordinator

Mike McHugh, Office of Business Development Director

Management's response was authorized by:

Larry Jennings, Interim County Administrator

This report was reviewed and authorized by Karen Nicolai, CPA, Clerk of Circuit Court, on February 12, 2008.

Purpose and Scope

Purpose:

Consider whether the procedures and controls exercised over the expenditure of tourist development revenues are appropriate and adequate to provide a satisfactory level of financial and administrative control and accountability and to ensure compliance with applicable Florida Statutes, Ordinances, Policies and Procedures, etc..

Scope:

The scope of work consisted of an analytical review of a sample of policies, procedures, and controls over various types of expenditures made by the Tourist Development Department. The scope of work included testing transactions from FY 2002/03 to FY 2006/07. The audit work included:

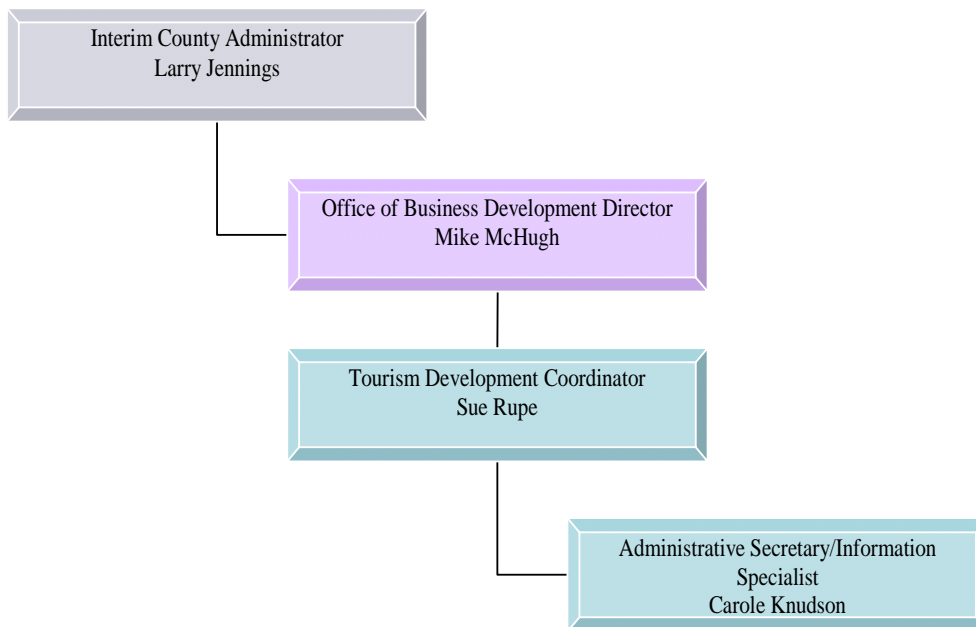
- Addressing if cash disbursements were reasonably controlled and provided some assurance that they were adequately recorded, reported, and in compliance with applicable Florida Statutes, Ordinances, Policies and Procedures, etc.;
- Identification and assessment of the effectiveness and administrative controls over travel and entertainment expenditures;
- Addressing whether policies and procedures are effective, documented and in place; and
- Addressing the efficiency and effectiveness of the work flow.

Baseline

The Board of County Commissioners' Tourist Development Department was established in 1992. The Department manages the Welcome Center located at the Best Western Hotel in Ridge Manor. It actively promotes and advertises Hernando County creating an economic benefit to the taxpayers by supplying jobs, sales tax, revenue, and improvements to the community to serve visitors and residents.

The Tourist Development Department, in conjunction with the Hernando County Tourist Development Council (TDC), works to develop creative approaches that allow for the promotion of Hernando County. For example, the Department encourages and supports improvement in the visual appeal of Hernando County roadways, it provides technical assistance to local businesses to design and produce tourist literature, and it develops promotional materials and advertising to market Hernando County as a tourist destination.

The Department's mission is to assist in the creation of a viable and sustainable tourist destination and to expand the economic base while responsibly utilizing, enhancing, protecting, and conserving the County's cultural, historic, natural, and recreational resources for visitors and citizens alike.



The Department employs two full-time employees. The Tourist Development Coordinator manages the Department's daily operations. The Department is organizationally under the Office of Business Development Director who is responsible for the high level operations.

The TDC's plan in Ordinance 96-21 appears to be the most recent plan and is in effect today. It outlines the Board of County Commissioners' approved expenditure guidelines. The goal of the TDC is to expend 74% of revenue on promotion activities, 12% on product improvement, and 14% on administration. The TDC's mission is to promote natural, historic, and cultural attractions of the

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county in order to increase the level and duration of visitation, along with increased visitor expenses throughout the year.

Over the past five years, the County has seen an increase in population and accommodations (hotels, motels, etc.). This has created a steady increase in TDT revenue. The Department is carrying forward funds to perhaps build a meeting complex (i.e., a conference center).

The Tourist Development Department's 2007 Annual Report encompasses a "year in review" perspective. This report focuses on the key elements/functions of the Hernando County tourism industry and how it fulfills the TDC's mission. This report includes: advertising and promotion efforts, information services provided, Florida tourists by state of residency, tourism events, consumer promotions, marketing research, and an explanation of why tourism is important to the State of Florida and Hernando County. Based upon this report, it appears that:

- In 2006, Hernando County welcomed 559,000 visitors who lodged overnight;
- The local tourism industry employs more than 4,800 residents with a payroll of \$60 million;
- The accommodation industry alone employs 285 local residents, generating a payroll of \$3.7 million;
- Hernando County has approximately 850 hotel rooms; and
- 14% of the sales tax collected in Hernando County is tourism/recreation related.

Per the Finance Department's records, during fiscal year 2006/07, the Tourist Development Department received approximately \$418,000 in TDT revenue and expended approximately \$340,000.

**DISCUSSION POINTS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSE**

Discussion Point 1: Composition and Establishment of the TDC

Florida Statutes (F.S.) 125.0104 provides guidance in establishing a tourist development tax advisory council (TDC). The Auditor tested compliance with F.S. 125.0104 by choosing 10 key criteria listed in these statutes. These are listed below:

- 1) The Hernando County Board of County Commissioners (who levies and imposes a tourist development tax) must appoint an advisory council.
- 2) This council must be established by ordinance.
- 3) This council must be composed of nine (9) members appointed by the Board of County Commissioners.
- 4) The Board of County Commissioners' Chair or designee must serve on this council.
- 5) Two members of this council must be elected municipal officials.
- 6) At least one of the officials listed in #5 above, must be from the most populous municipality in the county or sub county special taxing district in which the tax is levied.
- 7) Six members of this council must be persons who are involved in the tourist industry and who have demonstrated an interest in tourist development.
- 8) Of the six members in #7 above, three (3) to four (4) must be owners or operators of motels, hotels, recreational vehicle parks, or other tourist accommodations in the county or subject to the tax.
- 9) This council must meet at least once each quarter.
- 10) This council must continuously review expenditures of revenues from the tourist development trust fund and must receive, at least quarterly, expenditure reports from the Board of County Commissioners or its designee.

No material concerns were identified during testing, therefore, it appears that there is reasonable certainty the composition and establishment of the Hernando County TDC is in compliance with F.S. 125.0104.

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Discussion Point 2: Expenditure Controls and Compliance

The Auditor addressed if expenditures of tourist development tax dollars are reasonably controlled and provide assurance that they are adequately recorded, reported, and in compliance with known applicable Florida Statutes, County Ordinances, etc..

Monthly, Annual and Bi-Annual Reports - In an effort to keep the TDC up-to-date on statistical information needed for smart decision making, on a monthly and annual basis, the Tourist Development Coordinator reports the Department's financial status to the TDC.

On a bi-annual basis, the House Committee on Tourism requests certain expenditure summary information. The Tourist Development Coordinator reports this information on a TDT Update form. The most recent TDT Update contains a historical record of the type of tax levied, applicable Hernando County Ordinance numbers and their effective dates, type of actions taken, and the percent of and where tax is levied. The TDT Update also contains financial information such as: fiscal year data, annual revenues, percentage levied, and use of revenue by category with corresponding specific project. This historical record contains information from October 1, 1993, to last fiscal year.

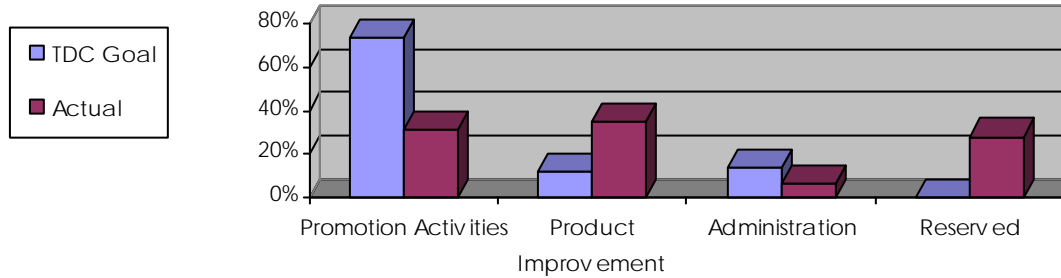
It appears that the Department must report financial information (tax revenue and expenditures) to the TDC (monthly and annually) and the House Committee on Tourism (bi-annually). The TDC meets on a monthly basis and is presented financial information. Per Florida Statutes, the TDC has a certain level of input on how tax revenue is spent and has a responsibility to voice any concerns that it may have to the Board of County Commissioners. One member of the Board of County Commissioners is a member of the TDC. Based upon a review of the Department's records, it appears that the Department has reported on a monthly, annual, and bi-annual basis, as applicable.

Based upon the oversight provided by the TDC and the House Committee on Tourism, as well as desk auditing/review by the Clerk of Circuit Court's Finance Department in its daily activities, it appears that expenditures of tourist development tax dollars are reasonably controlled and provide some assurance that they are adequately recorded, reported, and in compliance with known applicable Florida Statutes and County Ordinances.

TDC's Plan - The TDC's most recent plan was established in 1996 by Ordinance 96-21. During the past decade, the County's tourism trade has grown and evolved. As shown in Figure 1, there is a disparity between the TDC's plan (financial goals) and actual expenditures. When this concern was brought to the Tourist Development Coordinator's attention, she stated that she was aware of the disparity and that, although she is not aware of any Florida Statute or County Ordinance that requires the TDC to update its plan, she anticipates writing a new plan and presenting it to the TDC and the Board of County Commissioners for approval during fiscal year 2007/08.

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Figure 1: Expenditure of TDT Revenue



Recommendation 1- To better align the TDC’s plan and the Tourist Development Department’s financial goals and objectives, consideration should be given to following through on management’s commitment to request that the TDC revise its plan as soon as feasibly possible.

Management Response, December 2007 – The revised tourist plan was drafted and presented to Audit Services during the exit conference on 12/10/07. This revised plan will be submitted to the Tourist Development Council at their regular meeting on December 20, 2007. Upon approval by the TDC the plan will be submitted to the Board of County Commissioners for approval. This is anticipated to be January 8, 2008. Upon all approvals this plan will be implemented immediately.

***Auditor’s Note** – The auditor held report issuance to allow the Department time to complete its corrective action. As of February 12, 2008, the tourism plan was revised and it was approved by the TDC. The County Attorney’s Office completed its review. Implementation of the plan is pending the Board of County Commissioners’ approval. It is anticipated that the plan will be approved and adopted within the next 30 days.*

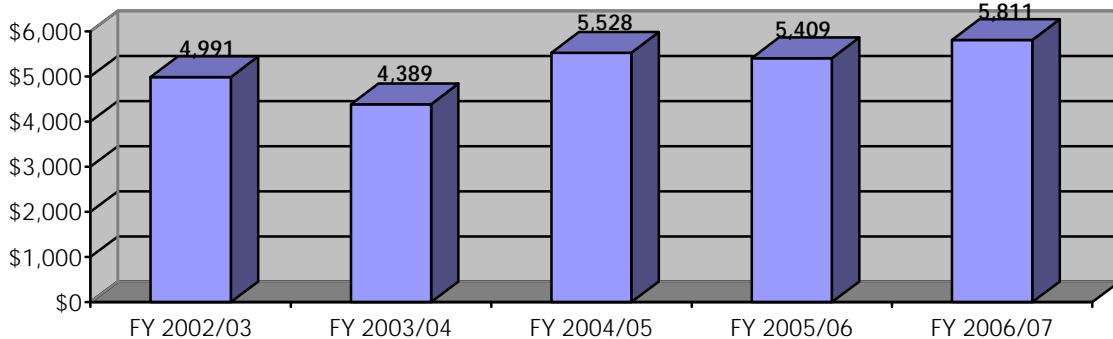
Discussion Point 3: Travel and Per Diem Expenditures

The Auditor identified and assessed the effectiveness and administration controls over employee travel and per diem expenditures.

Statistical Travel and Per Diem Expenditures - Based upon the Finance Department's Finance Plus records, during the past five (5) fiscal years, the Department's travel and per diem expenditures averaged from 1% to 2% of total expenditures per fiscal year. As shown in Figure 2 below, these expenditures have been materially the same (no significant increase or decrease) in the past three (3) years.

Figure 2: Travel & Per Diem Expenses

(Auditor's Note: The expenditure decrease in fiscal year 2003/04 was due to a decrease in the Department's staffing level.)



Fleet Assigned Vehicle – In February 2001, the Department was assigned a County owned vehicle (a 2001 Dodge Intrepid, 4 door, Asset #9455). Although the Department has an assigned vehicle, there are occasions when Department employees, TDC members, and volunteers drive their personal vehicles for business purposes. This is because there are instances when more than the one vehicle is needed simultaneously by two Department employees; an employee needs a larger vehicle to transport items; and volunteers are generally not authorized to drive County owned vehicles. Therefore, it appears that driving a personal vehicle for business purposes is an acceptable practice.

Travel, Per Diem, and Fuel Expenditures – From the travel expenditure financial records for the 10 month period ending July 25, 2007, the Auditor selected a sample of high value travel (per diem). The Auditor also reviewed fiscal year 2006/07 fuel expenditure transactions and a fuel usage report obtained from the Fleet Management Department. Using this data, the Auditor performed three tests: 1. a global fuel usage test, 2. a detailed fuel usage test, and 3. a travel expenditure and record keeping test.

- 1) *Global Fuel Usage Test* - During the 10 month period reviewed, the Department assigned Dodge Intrepid's fuel consumption of miles per gallon was well within the range of the manufacturer's estimated miles per gallon. This is an indication that the fuel pumped actually went into the intended vehicle.

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- 2) *Detailed Fuel Usage Test* - No material concerns were identified with any of the four (4) purchasing card fuel purchases from out-of-County privately owned gas stations reviewed or with the one (1) purchasing card fuel purchase at an in-County privately owned gas station.

Test results indicate that Department employees are not accurately recording the Ford Intrepid's odometer readings when fueling at County owned fuel pumps. During the period reviewed, there were 26 odometer readings recorded, of which five (5) or 19% were unreliable.

Recommendation 2 - To ensure reliable vehicle odometer records are captured, consideration should be given to taking precautions so that when odometer data is input, it is accurate.

Management Response, December 2007 - Staff has implemented this recommendation prior to audit recommendation. Staff has and will continue to insure that the odometer readings are correctly recorded during the fueling operation. Staff writes down odometer reading on a piece of paper prior to turning off the motor and getting out of the vehicle to start fueling process.

- 3) *Travel Expenditure and Record Keeping Test* - Tests were performed on 20 travel related expense checks written by the Finance Department on behalf of the Tourist Development Department. The Auditor tested adequacy of traveler expenditure documentation, accuracy of mathematical calculations, reasonableness of claimed mileage, meals, tolls, etc., and whether travel was approved by the appropriate level of management. No material concerns were identified with any of the travel expenditures or record keeping practices reviewed.

Discussion Point 4: Policies and Procedures

The Auditor addressed whether departmental expenditure policies and procedures are effective, documented, and in place (implemented).

Policies and Procedures - All of the Welcome Center Standard Operating Procedures (SOP) Manual sections reviewed appear to provide adequate management oversight and guidance (decision points, authorization levels, work flow, and timeliness). Examples of forms, reports, and documents referenced in the SOP's are exhibited. The Manual appears to provide adequate record keeping practices and instructions to prepare/complete forms. The Manual has an effective date and was approved in writing by management.

Compliance with Policies and Procedures - The Auditor selected a sample of 32 expenditures from the Department's fiscal years 2005/06 and 2006/07 financial records. These test items were selected by choosing high dollar value transactions from the following line items: Contracted Services, Rental/Lease – Buildings, Printing & Binding, Promotional Activities, Promotional Activities – Special Project, Fees & Costs – Administration, Office Supplies, Uncapitalized Equipment, Dues & Memberships, and Educational – Training & Tuition.

No material concerns were identified with any of the expenditure practices reviewed. The expenditure practices appeared to be in compliance with applicable policies and were appropriately authorized.

Discussion Point 5: Efficiency and Effectiveness of Work Flow

The Auditor addressed the efficiency and effectiveness of expenditure related work flows.

Based upon communications with the Tourist Development Coordinator, the Auditor flow charted the actual (described and observed) administrative and internal control structure related to the Department's expenditure functions. The efficiency and effectiveness and the adequacy of the internal control structure was reviewed then compared to any applicable Policy and Procedure.

Based upon testing, there appears to be reasonable efficiency and effectiveness in the tourism development tax expenditure work flows. The Auditor did not identify any material work flow concerns or areas that require fine tuning (other than those identified in Discussion Point 3).